

# ACCOUNTANCY

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## PROFESSIONAL NOTES

### P.A.Y.E.

In reporting on the arrears of P.A.Y.E. work in tax offices, the Select Committee on Estimates have done a valuable service. The Committee find a main reason for those arrears in the lack of trained staff, especially in the higher grades, though they point to possible improvements in procedure and methods, now being studied by a Whitley Committee, which may ease the pressure. It is evident that the Select Committee attach particular importance to the possible saving of work on the 2½ million employees who, though the operation of the allowances makes them "no net liability" cases, have at present to be coded, and in respect of whom the employer has to keep a weekly or monthly record of pay on a tax card. It is to be hoped and expected that any simplified procedure which the Whitley Committee may devise in these cases will also relieve the burden upon the employer. The Select Committee particularly mention that the additional cost of administration resulting from P.A.Y.E., after taking account of the work done by employers, must be very considerably in excess of the figure of £400,000 estimated as the additional charge to the Inland Revenue, but it was not within their terms to go farther into this aspect. The P.A.Y.E. system has meant a net increase of 1,500 in Inland Revenue staff, a reduction of 2,000 in the staff of the Collecting Branch being more than offset by an addition of 3,500 in the Chief Inspector's Branch. Improved training facilities are now in prospect.

The Committee give the following figures of arrears:

	April 1, 1946	July 1, 1946
(1) Total post for 1944-45 in arrear .. ..	1,136,900	761,400
(2) P.A.Y.E. arrears in (1) .. ..	859,600	527,000
(3) Unemployment repayments (normally repaid within 14 days) .. ..	11,000	6,000
(4) Movement cases .. ..	63,000	51,000
(5) Coding objections .. ..	63,000	31,000
(6) 1944-45 assessments .. ..	80	73
	per cent.	per cent.
(7) 1944-45 post-war credits .. ..	80	73
	per cent.	per cent.

The Committee are particularly perturbed at the long delay in assessments. Until the completion of the 1944-45 assessments, 73 per cent. of which were outstanding at July 1, 1946, the 1945-46 assessments cannot be started, but the Committee consider the Inland Revenue should aim at completing this work within six months of the close of the financial year. "At the present rate the taxpayer will not know his final tax liability for 1944-45 until two years after the end of that financial year, and the adjustment of over-payments and under-payments may not take place until 1948-49." "Simplified assessing," under which most of the detailed assessing procedure was forgone and a simplified notice issued in about five million cases—mostly cases where the taxpayer was liable at the reduced rate only—was introduced for 1944-45. Subsequently the Chancellor instructed that no assessments need be made for 1944-45 and

1945-46 for taxpayers within the "simplified assessing" field. The Committee's main hope for an improvement in the short-term seems to be the development of short-circuiting procedure of this kind. In the longer term, they look mainly to the provision of more trained staff at higher grades, and—a rather surprising emphasis is placed on this aspect—improved accommodation and working conditions in Tax Offices.

#### Coal Compensation Award

The Coal Compensation Tribunal, after sitting in private for six weeks, has fixed at £164,660,000 the compensation payable for the "coal industry assets" to be taken over by the National Coal Board. The Tribunal's announcement paid tribute to the manner in which the Government and the mine-owners had presented and argued their cases, but it gave no details of the composite parts of the compensation sum. It will be recalled that the agreed terms of the remit to the Tribunal required it to decide, first, what the "net maintainable revenue" of the coal industry assets might reasonably be expected to be if they were not transferred to public ownership, and second, how many years' purchase should be applied to the net maintainable revenue so calculated. So far as pre-war coal ascertainment are any guide, the average credit balance for the ten years to 1938 was £6½ million, and for the five years to 1938 just over £9½ million. These figures would correspond with 26 and 17½ years' purchase respectively, if applied to the Tribunal's award. There is, of course, no indication that the Tribunal's assessment of net maintainable revenue bore any close relation to either of these figures, which are quoted merely by way of illustration. Hence, the value of the award as a guide to future compensation proceedings affecting other nationalised industries is necessarily limited. Some elucidation of the two component parts of the award would have been welcomed. The global compensation sum, though moderately satisfactory in itself, is only the first stage in a long process by which it has to be allocated between the various mining districts, and thence to colliery undertakings themselves. In addition, the subsidiary assets (of which some will be taken over by the Coal Board, while others may be taken over at the Board's or the owners' option) will have to be valued separately. This month's rise in coal shares seems well founded, but it is looking a considerable way ahead.

#### Signs of Building Society Revival?

An encouraging indication of the growth of mortgage business and of confidence in the building society outlook is contained in the announcement by the Abbey National Building Society that the restrictions on share accounts are modified. Existing shareholders may invest a further £500, provided that the total holding does not exceed £5,000, and new share accounts may be opened for sums up to £500. The rate of interest is 2½ per cent., tax paid. The Abbey National, in common with other building societies, restricted share holdings owing to the great reduction in mortgage business available during the war. Recently, however, there has been a pronounced expansion in transactions involving old properties,

and purchases of new houses built by private builders are beginning, though on a modest scale.

#### Price of Land Compulsorily Acquired

It will be remembered that when in 1944 the Coalition Government passed the Town and Country Planning Act, there was a storm in Parliament, and, apparently, within the Cabinet, over the price to be paid for land acquired under compulsory powers. Eventually a compromise was reached, that while compensation was ordinarily to be the value as at March, 1939, a supplementary payment not exceeding 30 per cent. should be made to owner-occupiers for their interest in buildings on the land compulsorily acquired, or in agricultural land or buildings. A sequel to the Act, contained in an Order approved last month, has passed almost without notice, though it is of considerable importance. This Order lifts the figure of 30 per cent. to one of 60 per cent., thus materially augmenting the compensation of owner-occupiers. The provision is described as temporary and as a partial relief to many people with good claims. It is significant that this Government has raised the level of compensation beyond the figure which presumably represented the maximum acceptable to the Labour members of the Coalition Government. Though the Chancellor stated that the increase was without prejudice to further and wider consideration of the question in the autumn, it hardly seems likely that the long-awaited Compensation and Betterment Bill will fix a supplementary payment for owner-occupiers lower than that now established.

#### Revised Plans for the Steel Board

Wisely, but belatedly, the Government has decided that the Board to be set up for the iron and steel industry should not be expected to advise the Government on proposals for public ownership. Instead, the Board is to concern itself with the urgently needed reconstruction of the industry and with the regulation of production, distribution and prices. In these functions the Board will be responsible to the Minister of Supply, but the Minister will not send to it problems arising out of the Government's plans for securing a large measure of public ownership in the industry. These problems will be dealt with by the Ministry as a separate matter. This revision of the earlier scheme, whereby the Board was required to advise the Minister on public ownership itself, has arisen mainly, it appears, because leaders of the iron and steel industry were unwilling to associate themselves with a body which would have removed private enterprise from a large part of the iron and steel field. The compromise settlement was suggested by Dr. van der Bijl of the South African Iron and Steel Industrial Corporation, who declined the Government's invitation to become the first Chairman of the Board. It is to be hoped that the re-equipment and redevelopment of the iron and steel industry will now proceed rapidly but, despite the removal from the Board of the responsibility for bringing about public ownership—"nationalisation" is not spoken of—it cannot be hoped that difficulties will not arise when the industry is being generally controlled, though under Government supervision, by a Board which takes no responsibility for the far-reaching schemes of public owner-



ship which are at the same time being put forward and enforced by the Government. Control and ownership are, even in modern times, not so far divorced that we can be sure that the Board's partnership with the Government will be an amicable one.

### New Towns Bill

We drew attention in our June issue to the fact that, in the face of a very strong recommendation by the New Towns Committee for professional audit, the New Towns Bill provided that the audit of the Corporations responsible for the new towns should be by district auditors. As another instance of the valuable work which the House of Lords is performing in revising measures sent forward from the lower House, the Bill was in this respect improved by the passing of an amendment proposed by Lord Reith. This amendment removed a proviso that the auditors to be appointed by the Minister must be district auditors. Thus the appointment may be of professional or district auditors as the Minister chooses. During the debate, an assurance was given that it was the Minister's intention that auditors appointed under the Bill should be properly qualified persons and, on the strength of this assurance, a further amendment in the name of Lord de L'Isle and Dudley, specifying that the auditor should be a member of one of the recognised bodies, was withdrawn. As in the case of a similar amendment put forward under the Coal Industry Nationalisation Bill (see ACCOUNTANCY for August, page 241), there does not seem to be any adequate reason why this amendment should not have been accepted, especially since there are numerous precedents in other Statutes for setting out the professional qualifications of auditors. However, the fact that professional auditors may be appointed under the New Towns Bill, whereas the Government's first intention was to make this impossible, constitutes an improvement.

### Fortnightly Stock Exchange Settlements

The war-time system of daily cash settlements on the Stock Exchange has been greatly strained with the post-war growth of business. The registration branches of companies whose shares are actively dealt in have also been overworked. It has now been announced that this system of daily cash settlements is to be brought to an end and there will be substituted for it a new system of fortnightly cash settlements under which the clearing of stocks, making-up prices, ticket and accounts days will be similar to the arrangements in force before the war. There will not, however, be any contangoes or option dealings and it will also not be possible to deal for a future account before it has commenced. Dealing in the gilt-edged market will continue to be for cash. Cash dealings in the limited field of British Government securities are relatively simple since the Bank of England provides special certification facilities, but recent experience especially has shown that in other securities there have been delays in the transfer of registered securities. These delays have in practice enabled brokers—and behind the brokers a number of speculators—by withholding the names of transferees, to obtain a longer period of grace before incurring liability for stamp duty and fees for

delivering stock than they would obtain under the new system of fortnightly cash accounts, with a fixed ticket day on which names must, in any event, be passed. The rule under the daily cash settlement system that names must be passed within five days has in fact been widely ignored. The continued absence of contangoes and option dealings should prevent speculative dealings of the more extreme kind. The new system will not come into operation for at least three months from now.

### Boom in Company Finance

The advertisement pages of the financial press give ample evidence of great activity in public company formation, and in placings of securities. It is not an exaggeration, indeed, to talk of a boom among the finance houses, solicitors, and accountants who are concerned with these operations. Typically, a private business in the provinces is taken over by a finance house, converted into a public company, and its shares, or a part of them, are "placed," permission to deal having been obtained from the Committee of the Stock Exchange, after the usual formalities have been satisfied. The dominant motive on the side of the seller of the private business, who usually retains an interest in the public company, is to secure his position in regard to death duties. In many of these transactions, no new money is involved, and therefore no permission has to be obtained from the Capital Issues Committee. In other cases, however, new money is sought from the public, following C.I.C. consent. There have also been more numerous cases of new issues of a straightforward kind, where an established public company requires additional finance for an expansion of its business. In the latest instances there has been some bonus element in the issue of new shares to existing shareholders, the revised Treasury instructions to the C.I.C., on which we further comment on page 281 of this issue, now permitting some element of bonus, and thus partially coming into line with expert opinion that the capitalisation of reserves should not be regarded as reprehensible. For the first half of 1946 the Midland Bank figures showed new issues, excluding Government issues, totalling £46.5 million. This compares with £7 million for the first half of 1945; in the second half of that year the total was £13.5 million. The figure for the year 1938 was £147.5 million.

There is also a big growth in the formation of private companies. New businesses that are being set up after the war, particularly by ex-service men, are very commonly taking the form of private companies. Further, partnerships and one-man businesses continue to be converted into private companies, partly for taxation reasons, and partly to obtain the advantage of limited liability. In this part of the company field there may also be said to be a boom, and from our inquiries we should doubt whether there are many firms of practising accountants in the provinces or in London who are not at present concerned with a number of private company formations.

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## TOO HIGH TAXES

There are few, from the Chancellor of the Exchequer down to the humblest subject of a P.A.Y.E. tax card, who are not aware that taxation is far too heavy; whether the issue be approached from the viewpoint of high national policy, or from that of Friday evening's pay-packet, the reaction is the same. Discussion may proceed apace on the removal of E.P.T., the possibility of a dividends tax, the relative advantages of direct and indirect taxation, the modification of P.A.Y.E. But underlying the whole debate is the axiom that a reduction of taxation, whatever particular impost might be affected, would remove many of the existing impediments to economic progress, simply by a lightening of the over-all burden.

Taxation in this country is undoubtedly so high that it actively encourages the inflationary trend. It was argued by Mr. Colin Clark in a recent issue of the *Economic Journal* that if national and local taxation exceed one-quarter of the national income, a stimulus to an inflationary movement is produced. Though the exact figure is difficult to arrive at, the part of the British national income taken by these taxes to-day is undoubtedly well over one-quarter. Every accountant is aware of the widespread tendency among business men to regard E.P.T. and income tax as a cost, and not, as in theory they are, an appropriation out of profits. Price quotations are adjusted upwards to provide for at least part of the tax that will become payable on the results of the accounting period. Similarly, wage increases are sought throughout industry—and frequently obtained—in an effort to offset part of the burden of income tax. This relaxed attitude towards inflationary pressures is in evidence not only in business and commerce; even more important, it is present in official and financial circles. When there is an upward movement in prices the heavy money levies called for by the Exchequer are more easily collected. High taxation, in fact, is paid for by high prices.

The upward tendency of prices is reinforced by diminished incentives to produce. These incentives matter more where there is the opportunity of a direct choice between income and leisure—as, for example, with the private business man and the manual worker. Who can doubt that a day on the golf links instead of in his factory or office sometimes appears desirable to the business man simply because the sacrifice of income involved is so greatly reduced

by taxation? Does not the manual worker who extends his week-end do so because after taking account of P.A.Y.E., the marginal day of work brings him in so little? It is true that, in the first case, removal of E.P.T. at the end of this year will increase the proportion of profits accruing to the business man after the Exchequer has taken its share. Yet even then the level of income tax is so high that the choice is heavily weighted in favour of leisure compared with work. It is also true that, in the second case, adjustments in the operation of P.A.Y.E. might reduce the disincentive caused by the exaggerated marginal incidence of tax, compared with the average incidence. Yet even so, the average rate itself is too high to bring forth the maximum of effort on the part of many work-people.

There is thus an urgent need for an early reduction in tax much more substantial than has yet been made. Yet the commitments of the Exchequer are so large that it is difficult to see how a tax reduction on more than a modest scale can be effected in the next two or three years. The official insistence on a cheap money policy at all costs is undoubtedly partly derived from a consideration of this kind, since the payment of interest on the national debt involves no less than 13 per cent. of the budgeted revenue for the current fiscal year. In this kind of consideration lies also the rebuttal of the contention that such costs as the social and health services can be largely discounted on grounds that they involve no "real" demand on the national income, but are only transfer payments between taxpayers and recipients. When transfers serve to raise the total level of taxation above a certain height, long since reached in this country, they suffice to produce "real" effects through the general level of prices and through diminished incentives. It is certainly time that the great importance to the economy as a whole of the financial operations involved in the raising of the national revenue were more widely appreciated. Their effects go a very long way beyond the purely financial.

Since a large over-all fall in taxation is hardly likely to be achieved, it will be necessary to do the best that can be done by adjustments between taxes—though, as we have indicated, these are hardly so effective as a lower level of tax in general. The official examination of P.A.Y.E., intended to bring about its smoother and easier working, will help; the Chancellor's appreciation that direct taxes are more directly restrictive of economic effort than indirect taxes is welcome; the removal of E.P.T. will provide an encouragement; the negotiation of double tax agreements will redound to the advantage of our invisible exports. We may expect prior consideration to be given to earned income allowances in the next Budget, and this is all to the good, though it would be generally advantageous, from the point of view of maximising production, if, as is unlikely, these allowances were to be extended to the sur-tax range. But the sooner these various relative adjustments in taxes are merely part of a pronounced downward movement, instead of a very moderate one, the better it will be for all.



# Parliament—as seen by an Accountant Member

By ERNEST MARPLES, A.S.A.A., M.P. for Wallasey

Seventeen years ago I entered the Society of Incorporated Accountants and Auditors; seventeen months ago I entered political life as a newcomer. So my impressions of Parliament are fresh and vivid, if perhaps young and immature. After the most crowded, eventful and busiest year of my life, I will endeavour to record my impressions of Parliament from the point of view of financial and accountancy matters.

## The Chamber

First, it is necessary to mention that the atmosphere of the Chamber is highly emotional. The only thing that is certain is that its moods are uncertain. One moment it may be peaceful and placid, the next in angry tumult; maybe it will then dissolve in laughter. There is a continuous battle of wits, points of view and ideas, to say nothing of ideologies, where human beings—with all the emotions they possess—hurl words as their ammunition in what surely must be the most difficult place in the world in which to speak. Yet, in addition to being a cruel arena, it can be a most generous one, where spontaneous waves of sympathy are as much in evidence as are waves of indignation and anger.

## Qualities of a Parliamentarian

Second, it is necessary to analyse briefly the qualities which the best Parliamentarians possess. I find that their point of view—be it right or wrong—is quite clear in their own minds, and they usually, but not always, speak with not too many notes. A speech which is read lacks life and vitality, light and shade. A speech directed by a clear brain and a confident mind has a different tone. Then, again, a good Parliamentarian has a sense of the stage, because speaking is to some extent acting, and the more natural it is the better. The successful speeches are those where a man has a message to transmit, but, alas! not all politicians deliver messages when they speak. Then it is essential to possess a real knowledge covering not only the subject under discussion, but an historical and general background of politics. Facts must be verified and conclusions drawn, while over-statement must be avoided. If it is possible to bring in humour and flattery and all the other susceptibilities and weaknesses of human beings, then they should be used. Personally, I have most of my own speeches analysed for manner and delivery by some of my friends present in the House, and the next day for matter by one or more of the numerous members who are lawyers. The lessons to be learnt are many and varied. Furthermore, ability to "tune in" to the mood of the audience is essential if the point at issue is to be made and driven home.

## Specialists

Finally, most successful Parliamentarians specialise, because it is quite impossible to be an expert in all political subjects. This accounts for the fact that the same small group of people take part in discussions on financial questions. Exactly the same applies to

housing, colonial affairs, and other groups of political issues.

The Government's chief spokesman on financial matters is the Rt. Hon. Hugh Dalton, whose big body, bald head, and booming voice dominated the recent Labour Party conference at Bournemouth, where, in the midst of much back-slapping, his was slapped the hardest. The Opposition's chief financial expert is the Rt. Hon. Oliver Stanley, who in the past has occupied the post of Financial Secretary. He is tall, distinguished looking, knowledgeable, and very witty. Speaking with a slight cough and hesitancy, he uses the rapier, not the bludgeon, and his exchanges on the last Finance Bill with the Chancellor of the Exchequer were sparkling. He is seconded by the Rt. Hon. H. Crookshank, who frequently manages to ruffle his opponents, but is never himself ruffled. He is one of the ablest Parliamentarians in the House, and glides to the dispatch box with an innocent look on his face, which hides a most powerful mind.

## Financial Questions—Ordinary Members

All that I have so far written only briefly describes the background which must be considered by any Member of Parliament who wishes to make a point on any financial matter. It is usually much easier to make a financial point through appealing to the eye rather than the ear—that is why writers on financial questions achieve greater success than mere talkers. This particularly applies to the House of Commons, where there is a mixed audience, some of whom only have a weak grasp of finance, and often, it must be confessed, owe their position to an ability to over-simplify complex and complicated administrative problems. Frankly, a few are incapable of seeing the financial position of this country as a whole. They see the benefits of expenditure, but not the difficulties of raising the income. For example, one member told me that pensions should be increased and tax reduced, and when I muttered the hated words, "more borrowing or inflation," he replied that he never really understood this inflation business.

## Specialist Group

But the small select group who specialise in finance are a different kettle of fish; they know their facts and figures, while their conclusions are skilfully drawn, if not always correct. They are well versed in economics, and nonchalantly juggle with astronomical figures. I found my accountancy training was an enormous help in following their points, and in making my own, particularly when on this year's Finance Bill I moved an amendment to increase the earned income allowance. Even then the historical survey I gave of the past allowances for earned income fell rather flat, and interest did not really become focussed until I quoted from one of the Chancellor's books and referred to him as the Edgar Wallace of the political world. Interest became even greater when, in reply to an interjection from a member, I retorted that the trouble with his party

was that it had not discovered how to reconcile the soap-box with the dispatch box. A good joke always appeals more than an accurate figure; and it is always so when human beings gather together.

### Hustings

On the hustings it is even more difficult to present a balanced survey, and the average audience is quite incapable of grasping why this country cannot spend £12 million a day during peace because we spent an equivalent sum each day during war. Most questioners on this point are convinced that the only reason it cannot be done is because politicians are mean, wicked and selfish, and "big business" is "reactionary," and suffers from "vested interests." So I have given up the unequal struggle, and I have met with reasonable success by speaking on our manpower situation. The total number of men working in this country in 1938 is compared with the number we estimate will be working in 1950. The various cheques which the Government has

drawn on the Manpower Bank by increasing the number of workers in the Civil Service, the Armed Forces with their supplies, and the export drive, are allowed for, and after sundry other adjustments, a balance is arrived at which shows that the number working on consumer goods for use in this country will be materially lower in 1950 than in 1938. This has impressed audiences, but it takes time and patience to "get it over."

### Accountants in Parliament

To summarise—an accountancy training helps considerably when listening to arguments and when putting over ideas to the small expert group, but when speaking to a full House of Commons or to an audience in the country, other human factors count for more than skill at interpreting figures. But Britain would recover her position more quickly if the small expert groups were expanded, and as I am the only Incorporated Accountant in this Parliament, won't someone consider the possibility of joining me in the next?

## Currency Depreciation and Tax Allowances—II

By W. B. COWCHER, O.B.E., B.Litt., Barrister-at-Law

Under the Income Tax Act, 1918, Rule 3 (d) to Cases I and II of Schedule D, no sum is to be deducted:

"for the supply, repairs, or alterations of any implements, utensils, or articles employed for the purposes of the trade beyond . . ."

with the result that except in so far as such sum is in the nature of capital expenditure, it is admissible as a deduction in computing profits for income tax purposes.

### Definitions

As mentioned in the previous article, the word "supply" as used in the Act means "replenish" or "to fill a vacant place," with the result that there is a statutory right to the allowance by way of renewals in so far as the description "implements, utensils, or articles" extends and, clearly, it is necessary to examine this description by reference to its meaning at the time this deduction was first authorised. The Rule is a very old one, and the words quoted above are first found in the Income Tax Act of 1803, which, by instituting taxation at the source, laid the foundation of the present system. They were copied *verbatim* both into the Act of 1806, and into the substantial reprint of that Act in 1842. Thence they were transferred unaltered into the Act of 1918.

Disregarding the word "articles," which may mean anything, if the real extent of the Rule in the present connection is to be ascertained, it must be found in the words "implements" and "utensils." As to this, it has to be recognised that it is not the present use of these terms which governs the matter, but their legal significance. Light is thrown on this by an Act passed in 1774 to prevent the exportation to foreign parts of "utensils made use of in the cotton, linen, woollen, and silk manufacturers of this Kingdom." The object, apparently, of the Act was to retain exclusively for this country the trade

benefits arising from the new machine production in the textile industries. In the body of the Act, the prohibition extended to "any parts or parcels of such tools or utensils," but, with the looseness characteristic of legislation at the time, the expressions "tools or utensils" and "tools or implements" both appear in Section 5 of the Act, and, from the context, were clearly regarded as having the same meaning. The words "tools," "utensils," and "implements" are, in fact, used indiscriminately; and there would seem to be not the least doubt but that the prohibition in the 1774 Act was intended to extend, and did extend, to what, to use a non-committal expression, may be termed the whole of the instruments of production, whether great or small, in the industries affected.

It is a recognised principle of construction that, in the absence of proof to the contrary, words in an Act have to be given their ordinary meaning. To-day, for example, the word "plant" in relation to production is used to describe not only what may be termed the whole "set-up" of a manufacturing unit, but is also tending to be used with special reference to the heavier parts of the "set-up." It is, however, of wider application, and a comparison between definitions of "implement" and "plant," taken from the Oxford English Dictionary, is useful in this connection.

**Implement.** "The apparatus, or set of utensils, instruments, etc., employed in any trade or in executing any piece of work, *now* chiefly in agricultural implements or as a synonym of tools."

**Plant.** "The fixtures, implements, machinery and apparatus used in carrying on any industrial process."

The first "trace" given in the O.E.D. of the word "plant" is in a letter from Mrs. Piozzi dated 1789.



This lady had been Dr. Johnson's Mrs. Thrale, the wife of the wealthy brewer. She did not "fathom the meaning" of the term, and from this it may be gathered that the expression "brewery plant" was unknown to her. The second "trace" is from the *Civil Engineering and Architects' Journal* of 1838, and reads as follows:

"There was very little possibility of transferring these implements (technically called the Plant) from one contract to another."

Summing up the position, in the writer's opinion, the words "implements, utensils, or articles" in Rule 3 (d) are identical in their legal content with the more modern "plant and machinery" of Rule 6; and the onus of proof would lie upon those who argue to the contrary.

### Wear and Tear Allowance

It is somewhat strange for the argument that the allowance by way of renewal is non-statutory to be raised to-day by the Revenue despite the fact that the taxpayer's rights to this allowance have been unchallenged for nearly 150 years, and, particularly, in the light of the history of the wear and tear allowance under Rule 6 as set out below.

In the Twentieth Inland Revenue Report, "their Lordships," covering the year 1877, refer to the discussion in the House of Commons upon the renewal of the income tax in 1877, when an amendment was moved and negatived:

"to provide that, in addition to the deductions already allowed to traders and manufacturers, a reasonable sum should also be deducted on account of depreciation of implements, etc., arising from wear and tear."

Their Lordships go on to say that as the result of further representations by manufacturers, etc., they had determined to issue specific instructions for the guidance of their officers, and they reproduce in their Report a "Circular to Commissioners of Income Tax," dated June 4, 1877. In this circular they refer to various memorials addressed to the Treasury and Chancellor and to the Board seeking for an amendment of the Acts:

"to enable manufacturers and others to deduct from their assessable profits a percentage for depreciation or wear and tear of their plant and machinery, either in addition to, or as a substitute for, an allowance of the sums actually expended in repairs and renewals."

The Board say that it would appear that the suggestion for altering the law must have arisen from the provisions of the Income Tax Acts not being clearly understood, and

"The Board consider that the words 'any sum expended for the repairs of premises and the supply or repairs or alterations of any implements, utensils or articles employed for the purpose of any trade, manufacture, adventure or concern' should be construed liberally, so as to comprehend the full amounts actually expended on an average of three years, not for

repairs only, but also for renewals or replacements of plant and machinery."

The Board go on to say that, in view of the custom of large establishments to employ their own mechanics on renewal and repair work, if, in addition to the whole expense of repairs and renewals, a percentage depreciation allowance were made, there would "obviously be a double allowance." Nevertheless, in their Twenty-first Inland Revenue Report covering the year 1878, the Commissioners have to record their defeat as embodied in Section 12 of the Customs and Inland Revenue Act, 1878, now parts of Rule 6 to Cases I and II of Schedule D. The Board's interpretation in their circular of June 4, 1877, of the statutory allowance by way of renewals and replacements was, of course, of no legal validity. At the same time, it accords with the opinion as to the law already expressed.

When Section 12 was transferred to the consolidating Act of 1918, certain changes of wording were made. An important change was that in the earlier Act it was provided that the Commissioners

"Shall . . . allow such deductions as they may think just and reasonable,"

whilst, Rule 6 (1) reads:

"Such deductions may be allowed as the Commissioners . . . may consider just and reasonable,"

and it is a question of possible importance whether the first "may" in the present Rule 6 (1) is mandatory or only permissive.

### Renewals or Depreciation

As the *statute law* now stands, there is in respect of old plant and machinery nothing to prevent a trader claiming both renewals under Rule 3 (d) and depreciation under Rule 6 (1) for the same year. This position has existed in theory ever since 1878; and it may well be that the change of wording in 1918 had this in mind. Nevertheless, in *Caledonian Railway Company v. Banks* (1890, 1 T.C. 500), a case in the Court of Exchequer (Scotland), Lord Gifford expressed the view that the company "cannot get deduction for deterioration twice over," and, although the case in question contains much questionable reasoning, no one is likely at the present time to dispute this principle. There are, however, two other aspects to be considered. In the first place, there is nothing in the Acts to prevent the trader getting the renewals allowance in respect of one part of his plant and machinery, and a depreciation allowance in respect of other parts; and this fact is recognised in practice in regard to *classes* of plant and machinery, e.g., in the case of loose tools. In addition, the Acts do not require that the choice should be restricted to classes, and the taxpayer's choice can apparently be applied to individual units. A further and more important fact is that under the existing law, subject to the provisions of the 1945 Act, there is nothing whatever to prevent his making a fresh choice every year, claiming renewals or depreciation as he thinks fit.

In connection with this last point, it is worth while

noting that, whilst the Act of 1918 substituted in Rule 6 (1) an additional "may" for a "shall" in the original enactment, there is nothing of the kind in Rule 3 (d). The taxpayer has an absolute right to avail himself of its provisions. It has, nevertheless, to be borne in mind that under the latter Rule, as compared with Rule 6 (1), the taxpayer gains a benefit when the cost of renewal is greater and loses when it is less. The Royal Commission of 1920 (Cmd. 615, Report para. 217) recommended:

"We consider that the allowance for renewals should be calculated by reference to the cost price of the machinery replaced. This puts it in the same position as the allowance for depreciation."

Their second sentence is not true unless original cost is allowed where renewal cost is less; and, in any case, the proposal would seem to make the retention of Rule 3 (d) a futility.

### The Present Law

It remains to consider the practical application of what appears to represent the existing law. Taking a very simple case, let it be assumed that a trade motor car was bought new before the recent war for £500, and after 10 years in use its written-down value for tax purposes is £60, allowances having been claimed and given under Rule 6 (1). In 1946, it is replaced by a new car, nominally similar, for which the trader has to pay £1,200 including purchase tax. Assume, further, that he receives £200 for his old car either by sale or allowance. The trader claims under Rule 3 (d) to be allowed the cost of renewal. The question as to what will be the resultant position is not free from difficulties, but upon the basis that the balancing allowances and charges under the 1945 Act are supposed to be correctives of previous wear and tear allowances, the calculation should apparently be as follows:

Cost of new car	...	£1,200	
Less Allowances under Rule 6 (1)	...		
of old car ( <i>Caledonian Ry. Co.</i>	...		
<i>v. Banks</i> )	...	£440	
Less Balancing charge	...	140	
		£300	
Less Realisation of old car	...	£200	£500
			£700
Deduction for Renewal Rule 3 (d)			

As against this deduction, he will have to pay tax upon a balancing charge of £140, being the difference between £200 and £60. A further consideration is that, by virtue of Section 64 of the 1945 Act, no expenditure allowed as a deduction in computing profits is to be regarded as capital expenditure. As a consequence, the capital expenditure on the new car will, apparently, be limited to £1,200 less £700, plus £140, or £640 net, and, if so, the initial allowance under the 1945 Act would presumably be based upon this figure, which will also be the limit of the allowances under Rule 6 (6). Nevertheless, the yearly allowances under Rule 6 (1) will be based upon the full cost because the yearly diminution in value by reason of wear and tear will be the same upon a replacement car as upon any other similar new car,

and assuming the trader retains the new car until worn out and then replaces it by a third car, he will again be able to invoke Rule 3 (d).

It will be noted that the same influences which compel the trader to pay an excessive price for his new car will also tend to increase the residual value of his old one, and so result in his having to pay a balancing charge.

The successful establishment of the taxpayer's claim to switch from Rule 6 to Rule 3 (d) at the time any plant and machinery is replaced may be of considerable value to him. Although, as a matter of policy, it would, no doubt, be regarded unfavourably by the Revenue, the opinion may be held that particularly in regard to the replacement of pre-war plant and machinery, it is a method essentially fairer and sounder economically than the policy set out in the 1945 Act. The ultimate basis of a sound income tax must be sound economics, and it has to be borne in mind that at existing rates of tax the major part of all outlay on instruments of production is borne by the trader who will, in his turn, seek recoupment from his customers.

### War Damage Claims

The War Damage Commission draw attention to the fact that supporting documents must be submitted before claims for payment for repairs to war damage can be met. The documents are (1) the form of claim (form C2); (2) the builders' certificate (form C.2.A.B.); (3) the builders' accounts, whether received or not; and (4) the building licence, if the repairs require a licence.

### Professional Classes Aid Council

A substantial balance in hand, in place of last year's deficit, is recorded with pleasure and deep gratitude by the Professional Classes Aid Council in its report for the year ended April 30, 1946. This result arises from the splendid response to a special appeal, the amount of subscriptions and donations showing an increase of £909 on the previous year.

The Council is composed of representatives of most of the Benevolent Funds of professional bodies, and its work is carried on in close co-operation with them. The Incorporated Accountants' Benevolent Fund is represented by Mr. M. J. Faulks, M.A., F.S.A.A.

Expenditure of £9,551 was incurred in relief to 213 families. A number of applicants, including those whose needs were outside the scope of the Council's work, were advised of other possible sources of help. Annual grants totalling £2,188 were made to forty-nine elderly and infirm persons from funds earmarked for the purpose, mostly income from the investment of special legacies and gifts. Fees, maintenance and school outfits for 106 children absorbed £3,707, and the training of forty-seven students £1,595—in each case a substantial decrease since the previous year. The Report comments on the increasing difficulty of getting children of the professional classes into the schools they have normally entered owing to overcrowding.

The rise in the cost of living is acutely felt by many professional people, who are largely unaffected by increased earnings. A number of grants were made for special expenses and temporary needs, such as illness and convalescence.



# Accounting for Management Purposes\*

By L. C. HAWKINS, F.S.A.A.

(Comptroller, London Passenger Transport Board)

What do we mean when we speak of accounting for management purposes? Is accounting ever undertaken for any other purposes?

In one sense all accounts are management accounts. The very word "account" connotes management, because it implies accounting for one's stewardship to some person or body. All accounts therefore satisfy the same test; they reflect management and to someone they are management accounts.

What, then, is it that we have to consider? I cannot do better than go back to the first treatise on double-entry book-keeping ever written. It was published in Venice in 1494 by Pacioli, and in it he says:—

"... accounts are nothing else but a due order of the fancy of a merchant, by which means he will have news of all his affairs, and he will easily know whether his business is going on well or not. As the proverb says: he who does business without knowing all about it, sees his money turn into flies. And according to its state he will be able to remedy that which is required. . . ."

What better definition of accounting for management purposes could we have than this description written nearly 500 years ago—accounts by which management has news of its affairs, knows whether the business is going on well or not, and is enabled to remedy that which is required? I shall ask you to consider accounting not as a means of presenting an annual statement of the financial position of an undertaking, but as an essential part of the day-to-day administration of the business itself.

With the increasing tendency for industry to be organised in large-scale undertakings, the work of the industrial accountant on this wider basis has become an urgent necessity. He is responsible for preparing the accounts, and it is upon him—I suggest—that the primary responsibility falls for ensuring that the published accounts set out clearly and fully the financial position of the undertaking. He must also provide the means by which financial control is exercised over the manifold activities of the undertaking, the link between activity and financial results, the eyes through which the business is viewed, and the data for measuring the present efficiency of the undertaking and for helping to determine future policy.

More than this; the accountant has his own contribution to make in the unending search for greater industrial efficiency. Industrial efficiency is to be measured by a greater output, obtained without greater personal effort. These, after all, are basically the only means by which the standard of life in this country can be maintained and improved. And efficiency is to be found not only in improved technical processes of manufacture or production, but also in the clerical and other procedures which are followed in the factories and workplaces where these processes are employed.

## The Industrial Accountant's Work

The industrial accountant has much more to do than keep the books from which the audited accounts are prepared, though this forms an important part of his duties. He must ensure that the day-to-day system of

financial control provides an adequate check upon the regularity of financial transactions; that basic data are recorded in a way which will facilitate the preparation of daily, weekly or four-weekly statements of figures and statistics for use by the management; that the system of costing provides standards against which not only selling prices but efficiency, or the lack of it, can be measured; that statements are prepared at short intervals showing what profits or losses have been made and where they have been made; that trends and fluctuations are studied and portrayed by graphic or other means; that internal audits and verifications are properly carried out; that estimates are prepared of the results to be obtained from future capital expenditures; and that a proper control is exercised over working capital in relation to present and prospective cash needs.

All these and many other duties must be discharged continuously. While a balance sheet presents a flashlight picture of the affairs of the company at a particular moment in time, the industrial accountant must provide and endless moving-picture of the activities of the business, and this not only to record and check and reflect the past, but also as a means of anticipating the future.

Let me give you a general picture of what we do in London Transport as an illustration of one approach to the problem.

## The Use of Periodical Financial Returns

The system revolves, in the main, round the preparation of what we know as four-weekly estimates of financial results and working expenses.

Note the word "estimates." It is axiomatic in most businesses that the shorter the time-lag between the end of the accounting period and the issue of the accounts, the less precise the accounts will be. A departure from absolute accuracy is justified, where it is necessary in order to assess the results in time for the figures to be usable. In London Transport we prepare estimates every four weeks of the financial results accruing from the transport of over 10,000,000 passengers a day, in more than 10,000 vehicles running more than 1,250,000 vehicle miles a day, operated and maintained by 85,000 staff, and we issue them less than three weeks from the end of each four-weekly period.

The estimates begin with statements for use by the Chairman, the Board and the Chief Officers, showing in summary form the financial results for the period; the total traffic receipts, the total working expenses, the provisions set aside for renewal and maintenance reserves, the revenue from ancillary sources and the available net revenue.

The working expenses are then analysed in broad outline, distinguishing between running expenses which vary directly with mileage worked, traffic expenses which vary, but not directly, with mileage, maintenance costs, and fixed or overhead expenses.

Next, the total figures of receipts and expenses are broken down so as to show the net traffic receipts for each of the six principal forms of transport which the Board operate; the results are shown separately for railways, central buses, country buses, coaches, trams and trolleybuses. This break-down conforms to the break-down of the responsibility for operating the different means of transport. It enables the managers

\* A condensed version of a lecture given at the Incorporated Accountants' Refresher Course at Balliol College, Oxford, on April 8, 1946, and to the Incorporated Accountants' London and District and London Students' Societies on April 9, 1946.

to study, at four-weekly intervals, the financial results of their own particular spheres of operation, and it shows also the different sources from which the Board's revenue is derived.

Traffic receipts and working expenses are expressed not only in absolute money figures, but also in terms of receipts and expenses per car mile operated, this being the unit of work done.

The aggregate figures from the commencement of the year, as well as the figures for the current four weeks, are given.

These are statements for management at the higher levels. They are the headlines to the "news," and they show, again in Pacioli's phrase, "whether the business is going on well or not."

Shortly after they have been issued, detailed statements of working expenses are completed. These statements are related to the different forms of transport and to the different departments responsible for incurring the expenditure. Each category of expense is analysed in much finer detail for the sectional officers carrying out the work.

The financial figures are related to statistics of physical factors bearing upon work done; the vehicle miles worked, the number of vehicles operated or maintained, the vehicles under or awaiting repair, the miles of track maintained, the number of units of electricity generated, and so forth. Money figures have a much greater significance and usefulness when they are related to physical factors and conditions.

These four-weekly statements of financial results and detailed analyses of working expenses are still only part of the story.

On the revenue side daily statements are issued showing the traffic receipts earned by the different forms of transport, the mileage that was operated to carry the day's traffic, and the mileage which should have been but for one reason or another was not worked, together with a record of weather conditions and special occurrences which influenced the volume of traffic.

Weekly statements of traffic receipts are similarly prepared for review by and with the respective operating managers.

From time to time analyses are taken out showing the average traffic revenue earned per car mile operated on each route, and the quantum of traffic at each rate of fare.

In these, and other ways, light is thrown upon the varied activities of the undertaking.

Similarly with expenses; analyses of particular categories of expense are prepared in the Accounts Office or the Costing Office, some regularly, some at irregular intervals, reflecting different aspects of the cost of operating and maintaining the undertaking.

This description covers only a proportion, a small proportion, of the financial returns we use in London Transport. It will illustrate, I hope, some of the ends which the accountant should seek to serve.

Let us now consider the preparation and presentation of the returns.

### **The Preparation and Presentation of Periodical Financial Returns**

As we have seen, financial returns are prepared at daily, weekly or four-weekly intervals for use by the management and by the executive and supervisory staffs at different levels of responsibility. Some reflect in detail the work of particular sections of the business, some reflect the activities of groups of sections, while others give an over-all view of the operations of the business as a whole.

To prepare these returns, the accountant and his staff

must have a ready understanding of the technical basis upon which the business is conducted, for the returns must be in touch—in focus—with the realities of the business, if those who administer it are to be able to relate the financial figures to their day-to-day work. Figures which are of interest only to the accountant are of limited value.

The accountant must continually ask himself what purpose the returns are intended to serve. He must get the purpose clear in his mind. The value of the accountant's work in relation to management depends not upon his own satisfaction with the returns he produces, but upon the use which other people can make of them.

In determining the methods by which the basic data are to be assembled, the accountant must not be content to start from the point at which factual information reaches his office. He must go right back to the point of origin in the departments whose activities he is seeking to reflect.

The preparation of the returns is a combination of analysis and synthesis. Summarised and condensed returns are required by the management, but they should be built up, wherever possible, by aggregating the more detailed analyses which underlie them. The preparation of the summary figures will be facilitated and movements in the figures themselves will be more readily explainable.

The analyses of expenditure, while capable of summarisation under functional headings, should also be prepared in a form which relates the expenditure to the department which has incurred it. It is not enough to show what the money has been spent on; the returns should show who has spent it. These two requirements, a functional analysis and a departmental analysis, can and should be met, particularly where the work of the undertaking is organized by departments on broad functional lines.

There is still a third requirement. What was obtained for the money spent? This requirement is not always easy to meet, particularly where the expenditure relates to repair work for which there is no ready measure of quantity and quality, a subject to which I will return presently.

A system of periodical returns, however complete, is not sufficient in itself. Particular categories of expense need to be brought under intensive review from time to time.

In settling the form in which he will present his statements the accountant must always think of the man who, he hopes, is going to study them, and who, remember, is not expected to be an accountant. The question of the form in which the accounting and costing figures are presented is all-important. Money talks, but money figures will talk more effectively, and will be listened to more readily, if they are presented in simple and striking form.

The presentation of figures in narrative form, or a short commentary on their outstanding features, will frequently secure the attention of executives to accounting statements which they would otherwise be tempted to defer for consideration "another day."

### **Costing**

Having considered the nature and purpose of the financial returns which the accountant provides, let us now examine the subject of costing. We will leave the office and go into the factory.

Costing is sometimes associated in people's minds only with the ascertainment of costs for comparison with selling prices, or as a means of fixing future selling prices. In fact, its scope extends much farther. First, when



properly integrated with the processes of manufacture, it can be used as a check on the detailed cost of manufacture and, by disclosing where waste is occurring, as a means of reducing cost itself. Secondly, all operations, and not only manufacturing work, are capable of being costed in one form or another.

An effective system of costing does not necessarily involve the meticulous ascertainment of costs, in terms of money figures, related to small sections or units of work. Wages costs, for example, can frequently be reflected without a meticulous analysis of money figures at all. Daily or weekly analyses of man-hours can be taken out, and be furnished immediately to the supervisory staffs, without waiting for the wages sheets to be prepared or for the hours to be turned into money. Control is thus provided at the earliest possible stage. At a later stage the hours can be summarised under main headings, and be converted into money figures at average wages rates per hour. Any marginal loss of accuracy that might result from adopting average wages rates can be outweighed by the advantage that is to be obtained from providing the executive staffs with control figures, in terms of man-hours, at the earliest possible moment. A diagnosis, even if rough and ready, is better than a post-mortem, however precise.

Similarly in relation to materials. If the quantity of each category of material in fact used can be measured in total against a pre-determined quantity which should have been used, the distribution of the money value of the material over the detailed component parts making up the finished product, may be unnecessary. Thus in the case of repetitive work, bulk, batch or average costing in money values may be adequate, without costing the detailed parts.

But even the best costing records have their limitations. They do not reflect quality, either between one product and another for which different standards may have been set, or between products of the same type which ostensibly are of the same standard.

In manufacturing concerns the necessity to sell in a competitive market usually provides an ultimate check upon any failure to maintain or improve standards of output, whether in relation to quantity or quality, for a given amount of expenditure.

In relation to repair and maintenance work, which forms a large element in the costs of transport and many other public services, the check of a market price for the immediate product of engineering expenditure does not exist. In such cases a low level of current expenditure will not necessarily reflect a low level of ultimate costs. The low level of expenditure may be due to low standards of maintenance, or to the postponement of maintenance, and not to efficiency. This difficulty of relating repair expenditure to a quantum of work done is a matter to which I have already referred. It is a difficulty which has led us, in London Transport, to consider the adoption of a system of standard costing.

#### Standard Costing

Standard costing, quite briefly, is a means by which the ascertained costs of units of work performed are measured against predetermined standards representing what those units of work should cost. Its advantages are most pronounced where the work to be costed is of a repetitive type.

Manufacturing concerns, trading in a competitive market, can use the system as a measure for ensuring that value is obtained for a given expenditure. Where the salutary check of competitive market prices is not present, its usefulness will be enhanced.

Standard costing, however, goes far outside the realm of cost accounting as such. It can only be applied as an

integral part of the system of factory or production control. Without the co-operation of the Works or Production Manager it cannot be applied at all. The point at which the Works or Production Manager leaves off, and the Cost Accountant takes over, will vary to meet the circumstances of each case.

There are five main stages in the administration of a standard costing system. First, each operation necessary to the production of a given article must be defined, and the machines or tools to be used, and the method of executing each operation, must be technically planned. Secondly, the quantity of material of each type which should be used, and the time which should be taken by the workpeople to complete the defined operations, must both be assessed. Thirdly, there must be a works organisation to enable the operations to be completed in regular sequence, with an availability of machines, tools, labour and materials which will afford an even flow of work, without bottlenecks and without waste. Fourthly, there must be an adequate system of inspection to ensure that quality is maintained. Lastly, the costs incurred must be compared with the pre-determined standards of cost; the actual cost, in man-hours and materials, for the units of work completed, must be measured against the standards laid down for those same units of work.

In order to determine the standards, every function of production must be reviewed and scientifically planned. This, of itself, enforces a consideration of the ways and means by which economy in effort can be achieved, and waste eliminated. Time and motion studies to enable the workpeople not necessarily to work harder, but to produce a greater volume of output for the same effort, are part of the system.

The essence of the standard costing system is the pre-assessment of what things should cost, in man-hours and materials, on a properly planned basis, and then the measurement of performance against the standards. The determination of proper standards is essential, for the pre-planning upon which the standards are based will govern the methods employed, and therefore the cost of the product.

#### Accounting Statements in Business Administration

We will now consider, for a few minutes, the relationship of the accountant's work to the larger issues which arise in the management of the undertaking.

The accountant, as I have endeavoured to demonstrate, is required to show what profits or losses have been made and where, to furnish information which will measure efficiency, and to introduce procedures which will lead to improved efficiency. I do not qualify, in any degree at all, the importance and usefulness of the accountant's work in these spheres. But a cautionary word is necessary in regard to the interpretation of accounting and costing data. Do not jump to hasty and narrow conclusions on particular features of the statements. Their implication must be studied by the accountant from a business angle. An example will illustrate what I mean.

Fuel costs for operating vehicles may be rising, and the accountant may show that this is due to an increasing consumption of fuel for every mile operated. This is not necessarily a subject for criticism. What if the speed at which the vehicles are operated has also increased? A larger consumption of fuel may be an unavoidable corollary. But the higher speed will of itself have produced economies in other directions. The drivers and conductors of the vehicles will probably have worked more miles in the course of their duties. If so, the wages costs per car mile operated will be reduced. Again, each vehicle may have worked more miles in the course of a

day. If this is so, the mileage can be worked with a smaller number of vehicles, with a consequent reduction in the cost of licensed vehicle duty, in cleaning and inspecting expenses and in other expenses which are related to the number of vehicles operated rather than the aggregate mileage run. And what has been the effect of the higher speed on maintenance costs? All these factors must be reviewed. What started as a point of criticism, directed to one item of expense, may prove to be a source of economy when all factors are brought to account. And beyond all this there is still the attraction which a shorter journey time will have to the travelling public for whom the service is provided. A shorter journey time may be imperative in order to retain traffic. It may be a means of attracting new traffic. The accountant must project his mind into this business field. If he is to play his part in business administration he must be a business man, and not just a specialist in producing figures.

The accountant, in conjunction with the executive departments, will also be required to make forecasts of the financial results to be expected from new capital expenditures and new developments. These forecasts will play their part, an important part, in determining future policy. A word of caution is necessary in regard to them, however, lest they should be assumed to have an exaggerated influence in this larger sphere. The accountant's figures are a guide, but they can never be definitive, in settling the larger questions of policy.

Accounting estimates of the anticipated financial effect of extensions or development schemes requiring new capital expenditure must be as complete as they can be made. But the final settlement of policy rests not solely on accounting estimates of financial results. Vision and foresight, and a capacity to accept risks are

called for, qualities which the accountant may possess but which are outside the scope of his accounting statements.

### Conclusion

Before closing this paper I would like to express the hope that in these post-war years the accountancy profession will give more and more attention to the work of the accountant as part of the industrial machine. If the industrial accountant is to play his full part in this enlarging field for his activities, there must be the same free interchange of experience and ideas in relation to his work, the same study of basic principles and methods, as have always obtained in relation to the work of the auditor.

I will confess that the thought which the writing of this paper has provoked has provided, for me, the strongest evidence of the need for research into the work of the accountant for management purposes. This research is, I suggest, warranted by the opportunity which exists for accountants to make a fuller contribution to the internal management of industrial concerns, and so promote the public welfare.

The accountant who is a member of a professional body, occupying a position of responsibility in the administration of a business, is still working for the public welfare. Modern managements recognise that they owe a duty not only to the investor but also to the public for whom the service or product is provided, and to the staff who are employed. The accountant, working as part of the management organisation, is equally applying his knowledge and ability towards these wider objectives of the public good, and the training, experience and background which a man has gained from being a member of a professional body of accountants can only assist him in his purpose.

## TAXATION

# Double Taxation Relief—II

Last month's article discussed in general terms the complicated question of double taxation, and there was appended to it a tabular comparison of the agreements with Canada and the United States. The subsequent announcement of the completion of the negotiations for an agreement with Australia makes it opportune to give more extended consideration to the salient features of all the agreements so far made. First, however, it is necessary briefly (a) to review the Australian agreement, and (b) to recapitulate the position as it was prior to the new agreements, and as it will remain in the case of countries with which new agreements are not concluded.

### Relief Given Hitherto

Hitherto, the relief given has been as follows:—

- (a) In the case of the Dominions, etc., which have reciprocated in the Dominion income tax relief idea, as provided in the U.K. by Section 27, Finance Act, 1920, the taxpayer has, in general terms, been given such relief between the two countries as will result in his bearing the higher of the two rates of taxation. The U.K. gave relief at the Dominion rate, not exceeding half the effective U.K. rate; the Dominion gave, more or less, relief at the excess of their rate on the relief given in the U.K.
- (b) In the case of a non-reciprocating Dominion, relief was given in the U.K. as in (a), but since the Dominion did not reciprocate, there was in some cases an excess of Dominion tax suffered over the relief given here. This excess was allowed as a

deduction from total income in the U.K. computations, thus giving effective relief only at the appropriate U.K. rate on such excess.

*Example:* Sur-tax payer's U.K. effective rate was 12s., therefore relief given at 6s., his Dominion rate was 7s.

The taxpayer will have suffered approximately:

Dominion tax at		7s. 0d.
U.K. tax at	12s. 0d.	
Less D.I.T.R. at	6s. 0d.	
	6s. 0d.	
„ U.K. tax at 12s. in £ on 7s.—6s.	7.2d.	
		5s. 4.8d.
		<u>12s. 4.8d.</u>

This is not quite accurate, as the excess of the Dominion tax over the U.K. relief is deducted from the income, and so commonly affects the next year of assessment. It does, however, show the idea.

- (c) In the case of other countries, the only relief (except in the case of shipping, etc.) was to allow the foreign tax to be deducted from the foreign income. This, therefore, only gave relief at the effective U.K. rate on the foreign income tax, not on the foreign income.

Where business was carried on in the other country through a subsidiary company, however, the above reliefs did not work, owing to the separate legal entities.



In general, the subsidiary paid the local taxes in full, with, in some cases, a dividend tax on dividends paid and a withholding tax on profits retained.

The above reliefs still continue, of course, until an agreement for the country concerned comes into force.

### The New Principles

The agreements so far made proceed on the general lines that full relief will be given where income is taxed in both countries. The relief is to be given by the "main" country giving the taxpayer credit for the tax paid in the other country on the same income. (The word "main" has been used here to mean the country the tax of which has priority.)

### The Australian Agreement

The Australian agreement gives priority to the tax of the country of origin of the income, and if the country of the taxpayer's residence also taxes the income, the latter country will give credit against its own tax of the tax paid to the country of origin. (Australia does not tax its residents on income (other than dividends) derived from sources in the U.K. which is taxed in the U.K.)

The preceding paragraph does not apply to profits from shipping and air transport, dividends, literary and industrial royalties, pensions and purchased annuities and certain agencies.

#### COMPANIES AND DIVIDENDS

Dividends paid by an Australian subsidiary to its U.K. parent which owns all the shares (less directors' qualifying shares), will be exempted from Australian tax. Australia will thus get its full tax on the profits of the subsidiary company, just as it will in the case of a branch, but will not charge tax on the dividends received by the parent company. In the case of dividends paid by other Australian companies to U.K. shareholders subject to U.K. tax, Australia will reduce the tax payable on the dividends by one-half, unless the shareholder is trading through a permanent establishment in Australia. Dividends paid by U.K. companies to U.K. shareholders will be exempt from Australian tax.

No U.K. sur-tax will be payable on dividends paid by U.K. companies to Australian shareholders not engaged in business in the U.K. through a permanent establishment.

U.K. companies which are private companies under the Australian law (whether trading in Australia through a separate subsidiary company or a branch), will con-

tinue to pay the Australian private company tax at full rates on undistributed income. U.K. public companies similarly trading will also pay the undistributed profits tax.

Australian shareholders at present pay tax on the net dividend received from U.K. companies. They may continue to do so, or may elect to include the U.K. tax appropriate to their dividends (calculated where necessary at the net U.K. rate payable by the company); in the latter case, they will be allowed a credit of the U.K. tax from the Australian tax payable on the dividend.

U.K. shareholders receiving dividends from Australian companies will be credited with the Australian tax, which, in the case of ordinary and participating preference shares, will include the tax payable by the company as well as the dividend tax.

#### OTHER PROVISIONS

Each country will tax trading profits on the origin basis, credit being given as already stated. Australia will continue to tax profits from film business controlled abroad and from insurance with non-residents, and the U.K. will allow credit for the Australian tax.

Carrying on business through an agent will only rank as a permanent establishment if the agent has and habitually exercises authority to conclude contracts otherwise than at fixed prices, or if the agent supplies from stocks held locally.

Australia will exempt profits from shipping and air transport, derived by a U.K. resident from ships whose port of registry is in the U.K., or aircraft registered in the U.K. The U.K. reciprocates in this respect.

Royalties (other than mining), pensions, and purchased annuities are taxable only in the country of residence.

Government remuneration will be taxed by the employing government and exempted in the country of employment, unless the officer is ordinarily resident in the country in which he is employed, or is not there solely for rendering services to the employing government.

Provisions will also be made relating to other remuneration.

The agreement will operate for the U.K. year of assessment, 1946/7 (Surtax 1945/6, E.P.T. and N.D.C. from April 1, 1946), and for the Australian year ended June 30, 1946 (in the case of individuals on P.A.Y.E. in Australia June 30, 1947).

(To be continued)

## Taxation Notes

### The Finance Act, 1946

The Finance Act received the Royal Assent on August 1, 1946. Most of the provisions have already been noted in these columns, but certain important additions were made in the later stages of its passage through the Commons. These were, briefly, as follows:

#### Nationalisation

The assessment for the penultimate year of a business is not to be increased to actual (where relevant), if the "discontinuance" is the result of a nationalisation scheme (Section 32).

#### Balancing Allowances on Industrial Structures under the Income Tax Act, 1945

By Section 3 (4) of the Act of 1945, a balancing allowance had to be proportionately reduced where

there were years for which no annual or scientific research allowances were given. This meant that it was possible for the aggregate allowances to be less where a building was scrapped than where it was retained. The subsection will now apply only where the taxpayer so elects (Section 33).

#### E.P.T.—Replacement of Buildings Provided before 1937

If the owner of buildings acquired before 1937 decides that it is more expedient to scrap the buildings and construct replacements than to do deferred repairs, he is entitled to claim for E.P.T. so much of the expenditure as he would have been entitled to claim as deferred repairs allowance (Section 40). (Buildings erected in 1937 onwards are already provided for by exceptional depreciation allowances.) The section covers sale or demolition on or after April 1, 1945.

**E.P.T.—Losses on Closing Stock**

An important amendment allows all overheads to be included in valuing work in progress (Para. (4) (a), 8th Sch.).

**E.P.T.—Rehabilitation Costs incurred before 1947**

The original clause dealt only with rehabilitation costs incurred after 1946. This left the anomaly that both income and capital expenses incurred after 1946 were covered, but only income expenses could be allowed if made earlier. This is now put right; capital costs incurred before 1947 will be allowed in the chargeable accounting period in which they are incurred (Section 41).

**E.P.T.—Cancellation Costs**

Payments to terminate contracts or surrender leases, where the termination is a consequence of the termination of a contract for the purposes of the war, are to be allowed in the same way as rehabilitation costs (Section 42).

**E.P.T.—Extension of Time re Terminal Losses, etc.**

Where the work cannot be carried out in 1947, the Commissioners are now empowered to extend the time for so long as they think fit, but not beyond the end of 1949. Readers will remember that the original terminating date was December 31, 1948 (Section 37).

**Receipts by Joint Authorities to Meet Deficits**

Moneys received by Joint Boards of Local Authorities under statutory precepts issued to their constituent bodies to make up a deficiency in their revenue, are not to be regarded as trading receipts for any purposes of the Income Tax Acts. The Section is retrospective so as to annul the decision of the House of Lords in *Pontypridd and Rhondda Joint Water Board v. Ostime* ((1946) T.R. 107). This case was noted in ACCOUNTANCY for August, 1946 (page 258). The section is not to increase the tax payable (Section 61).

**Estate Duty—Gifts *inter vivos***

The period which must elapse before death to prevent gifts being liable to estate duty has been reinstated in the case of charitable gifts at one year (Section 47).

## Recent Tax Cases

By W. B. COWCHER, O.B.E., B.Litt., Barrister-at-Law

*Income Tax—Trade debt in respect of goods sold on credit in year 1—Debt written down in year 2 and writing-off allowed as a deduction for Case 1—Balance written off and similarly allowed in year 3—Owing to inter-Governmental arrangement for payment of debts, in year 4 large payments received in respect of debt—Whether trade receipt—If so, whether to be included in year of receipt.*

The case of *Bristow v. William Dickinson & Co., Ltd.*, was noted in our issue of February, 1946, where the facts were set out. The questions at issue are given in the heading and, as will be seen, the case is a good one in that it deals with some of the most troublesome aspects of the problem. The General Commissioners had decided in favour of the company, but their decision was reversed by Macnaghten, J., whose judgment has been affirmed by a unanimous Court of Appeal (C.A., February 19, 1946, T.R. 1). The Master of the Rolls gave the only judgment. Leave to appeal to the Lords was given.

In *Absolom v. Talbot* ((1944) A.C. 204, 26 T.C. 166), three out of the five judges in the House of Lords who heard that case dissented emphatically by way of dicta from the view of the Privy Council in the *Gleaner* case ((1922) 2 A.C. 169), and endorsed the Revenue practice under which debits in respect of bad and doubtful debts follow the ordinary commercial method. But the second point as to what was to be done where, in a subsequent year, the debt has become wholly or partially good was only dealt with by Lord Porter, who considered that the practice above-mentioned necessitated a corresponding obligation to bring to account "if a payment greater than the assumed value had been obtained, or seems likely to be obtained, on a later occasion." In other words, the rule should be that of reciprocity. Lord Greene said that he was not sure he would accept this view as to the writing-up if there was improvement in the quality of the debt, but said that that point had not to be considered. Subject to this, he agreed with the views expressed in the *Absolom v. Talbot* case by the majority upon the first point and by Lord Porter upon the second point.

*Income Tax—Damages for personal injuries—Loss of Wages—Whether income tax deductible in computing damages.*

In *Jordan v. Limmen and Trinidad Lake Asphalt Co., Ltd.* (K.B.D., March 19, 1946, T.R. 173), the question was whether special damage was correctly computed upon the footing that the plaintiff's loss of wages should be taken at the gross figure without any deduction for the income tax which he would have been called upon to pay had he continued to work. Atkinson, J., in deciding for the plaintiff, followed *Fairholme v. Thomas Firth and John Brown Limited* ((1933), 49 T.L.R. 470), in which du Parcq, J., held that in assessing damages as between master and servant no regard should be had to the servant's liability to the Crown which was *res inter alios acta*.

It is interesting to note that in *Stewart v. Trustees of the Clyde Navigation* and *McDaid v. The Same* (Court of Session, December 13, 1945, T.R. 373), the Scottish judges reached a different conclusion and held that, whilst precise enquiry into the pursuer's income-tax position with disclosure of returns was not justified, the correct method was to take his income-tax liability into account in a general way.

*Schedule E—Contract of Employment—Income tax on salary to be paid as travelling expenses—Claim for arrears of salary and "travelling expenses"—Illegality.*

The case of *Miller v. Karlinski* (C.A., November 14, 1945, (1946) T.R. 121), illustrates one of the dangers of illegal tax avoidance. Plaintiff was entitled to £10 per week, but it was agreed between him and the respondent that he should also be paid an additional amount in the guise of travelling expenses to compensate for the tax which would be deductible. He sued for £71 2s. 8d., representing arrears of salary for ten weeks and £21 2s. 8d. for "travelling expenses," of which only about £4 was genuine. The county court judge had found for the plaintiff, saying that he did not think it was in the mind of either party that there would be a small loss to the Revenue. The Court of Appeal was



more incredulous; and, in giving judgment for the respondent, but without costs, du Parcq, L.J., declared:

"It is well that people who enter into this kind of agreement should know that, if either party fails to observe any of its terms, the Courts will not entertain an action to enforce them."

The whole agreement was held to be an illegal agreement and so the plaintiff lost both wages and "expenses." As for the respondent, it is not unlikely that the report of the case may have created some interest elsewhere.

*Income tax—Divorce suit—Annual payments to wife under Court Order for benefit of children—Free of tax—Whether assessable to tax—Amount of gross payment—Whether assessable to tax—Whether wife's personal reliefs to be taken into account—F.A. 1941, Section 25.*

In *Spencer v. Robson* (K.B.D., March 15, 1946, T.R. 169), the appellant was assessed by the General Commissioners for 1941/2 in the sum of £92 11s. 5d., which included a sum of £82 15s. 2d., representing twenty-twenty-ninths of £120 free of tax ordered by the Court to be paid by him as from May 24, 1937, to his late wife for the maintenance of two children of the marriage. Under *Stevens v. Tivard* ((1940), K.B. 204, 23 T.C. 321), it had been held in a similar case that such a payment was assessable income of the wife. Appellant contended first that the sum payable for the maintenance of the children was not assessable to income tax and, secondly, as an alternative, that the £82 15s. 2d. when grossed was not a sum equal to twice this amount but should be grossed by reference to the wife's actual tax liability after taking into account her allowances and reliefs. Macnaghten, J., held that the sum payable to the wife was assessable income in her hands and that following *C.I.R. v. Cook* ((1946) A.C. 1) the gross amount should be calculated by reference to tax at the standard rate.

In the absence of the case stated by the Commissioners, neither the nature of the assessment nor its amount is understandable. If the assessment was made under Rule 21 of the General Rules it would have had to be made by the Special Commissioners, whilst the amount assessed would be the gross amount obtained by doubling the net sum. The expression "assessable income in her hands" whilst applicable to surtax—assuming Mrs. Spencer to be liable to this tax—could scarcely apply to income tax other than surtax, seeing that it was payable after deduction of tax at the standard rate. "Taxed income in her hands" would be the usual description.

*Income tax—Settlement—Deduction in computing total income—Covenant by settlor for annual payments to trustees for benefit of his infant children—Father and mother of children trustees of settlement—No actual payments made to trustees as such, but sums in excess of covenanted amounts paid by settlor for children's benefit—Whether such payments discharged settlor's obligations under settlement and deductible in computing total income—Income Tax Act, 1918, Section 27 (1) (b).*

Before, by Section 21 of F.A. 1936, a stop was put to the practice, many thousands of parents had gravely made deeds of covenant—often, as here, with themselves as trustees—whereby they undertook to make payments for the benefit of their children which they would have made in any event unless, as may have been the case, it was tax recovered from the Revenue which alone made the covenanted payments fully possible. Unfortunately for the respondent in *C.I.R. v. Compton* (K.B.D., April 5,

1946, T.R. 179), the formalities requisite were not observed. The respondent had, it is true, paid considerably more than the stipulated sums, but he paid the amounts direct out of his pocket, there being neither a separate banking account for the trust nor trust accounts.

The Special Commissioners had found for the respondent, apparently upon the ground that the Chancery Division would have allowed the payments to be brought into account in an action to make good his covenants. But in *Earl Howe v. C.I.R.* (1919, 2 K.B. 336, 7 T.C. 289), it had been held that, in order to justify deduction in computing total income, the right to deduct tax from the payments must exist, the recipients' income being thereby taxed at the source. Obviously, tax could not be deducted from the payments made direct for the children's education, etc., and Wrottesley, J., therefore, in view of the finding in the case that "He never made any payments to the trustees," held that there was no fact found to justify the Special Commissioners' decision.

Although most of the deeds of covenant for the benefit of children entered into prior to April 22, 1936, may have been colourable and, therefore, questionable ethically, looking at the matter from the national rather than the Revenue standpoint, it is open to question whether, on balance, their effect was evil rather than good. In a large proportion of cases the professional and official classes were relieved of part of the burden of education and maintenance of children which falls so heavily upon them. Alternatively, whilst not reducing the burden, they enabled better provision to be made at the same net cost. Nevertheless, relief of this kind should apply—if it applies at all—to all those taxpayers falling within clearly defined limits and not merely those who take special and rather peculiar steps to bring themselves within a special group.

*Excess Profits Tax—Capital—Borrowed money—Sum credited in bank account on delivery to bank of unendorsed bill of exchange together with shipping documents—Whether transaction a loan by the bank or a purchase of the bill—Bills of Exchange Act, 1882, Section 53—F.A. 1941, Section 29 (1).*

The question for decision in *C.I.R. v. A. Plein and Co., Ltd.* (K.B.D., April 9, 1946, T.R. 183) emerged as a very simple one of fact after there had been a good deal of apparently confused argument in court. The respondents drew a bill upon a South African customer and delivered it together with the necessary shipping documents to the London Branch of the Standard Bank of Johannesburg. The latter credited the respondent with the full amount of the bill and then sent the latter with the documents to South Africa, where they would be handed over against acceptance of the bill by the customer. The Special Commissioners had found that the credit to respondents' account was borrowed money. Wrottesley, J., affirmed their decision.

The question into which the case finally resolved itself was whether the bill in question had been sold to the bank. If a bill is taken to a bank and discounted at a price, this constitutes a sale of the bill, despite the fact that there will be recourse by the bank should the bill be dishonoured. Here, the bill was incomplete in that it had not been accepted. The bank had credited the full amount to the respondent's account, not a net discounted figure, and under Section 53 of the Bills of Exchange Act, 1882, it would have had no rights against the person on whom the bill was drawn had he refused acceptance. The only remedy of the bank would have been against the respondent and, upon this footing, there was apparently but one answer—the affirmative one—to the question whether the amount credited to the respondent by the bank was "borrowed money."

*Sur-tax—Investment company—Controlling director sole voting shareholder—Trusts for benefit of children—Payments by trustees to controlling director for maintenance and education of children—Ability to secure application of company's income—Estate income—Finance Act, 1939, Sections 14 and 15.*

In *Hulme Estate Company, Ltd. v. C.I.R.* (K.B.D., April 3, 1946, T.R. 175), the circumstances were of a kind that has become familiar. The appellant company had been formed for the purpose of holding shares in another company in connection with trusts for the benefit of the children of P. There were two classes of shares, and both A and B shares ranked equally for dividends and winding up, but only the former had voting rights. Later, a third class of C shares was created; and there were other alterations. The upshots of a somewhat complicated series of transactions was that, as controlling director and sole voting shareholder dealing with trustees, one his sister and the other his solicitor, P had for something like 15 years received the whole of the dividend income, although after 1937 the surplus over £3,000 per annum in respect of his infant son was retained in trust. The amounts paid by the trustees to P had been for the maintenance and benefit of his children. The appellant company had had certain dealings in land and property and this last, costing between £16,000 and £17,000, had been let to P at £350 per annum, in the words of the judgment, "A good bargain at the expense of the company." This income, in view of the provisions of F.A. 1939, Section 14, had been excluded from apportionment. Subject to this, the Special Commissioners had apportioned the whole income of the company to P. under Section 15 of the same Act; and Wrottesley, J., in a caustic judgment, affirmed their decision.

One argument for the company was interesting. Counsel claimed that the sums paid to P by the trustees for the maintenance and education of his children were not applications of income for his benefit but were payments for the services rendered by him; and the judge held that Section 15 could not be intended to apply to a benefit obtained in exchange for services rendered or goods, or any other valuable consideration. But there remained the question as to the excessive character of the payments. Neither side had asked for their apportionment; and the judge pointed out that the payment of sums amounting to £34,000 in the course of 12½ years for the upkeep of the little boy John's nursery and his education, and of nearly £2,000 a year in addition for the nursery and education of the two girls are, I should have thought, transactions which need no adjective—they speak for themselves. After all, this was not a royal nursery.

*Excess profits tax—Standard—Inter-company debt—Company subsidiary in standard period but not in chargeable accounting period—Whether amount of debt and interest thereon deductible in computing standard capital and profits respectively—Finance (No. 2) Act, 1939, Sections 12, 13, 14, 17: Seventh Schedule, Part I, para. 4; Part II, para. 2.*

*Trinidad Petroleum Development Co., Ltd. v. C.I.R.* was noted in our issues of March and November, 1944. In the House of Lords, the decision of the Court of Appeal against the company was unanimously affirmed (House of Lords, April 12, 1946, T.R. 197), with the result that, under Section 17 (1) of Finance (No. 2) Act, 1939, where the subsidiary relation exists during a standard period, then, in computing profits and losses, the interest payable by one company to the other has not to be deducted and in computing capital the debt in respect of which the said interest was payable has to be regarded as non-existent, despite the fact that the sub-

sidary relation did not exist during the chargeable accounting period. The position was set out in the judgment of Lord Uthwatt as follows:

"Capital and profits and losses for any period are ascertained exclusively by reference to the circumstances of that period. . . . The provision as to addition or subtraction in a particular chargeable accounting period does not enter into the computation of the standard profit, which once fixed remains immutable."

The above *dicta* have, of course, to be interpreted as applicable to cases of computation. They have no application to "standard profits . . . ascertained otherwise than by reference to profits," to use the expression found in F.A. 1944, Section 32 (1).

*Excess Profits Tax—Standard—Working proprietor—Seasonal trade—Number of days worked in each year less than half chargeable period—Whether Saturday and Sunday work to be specially recognised—F.A. 1937, Section 20—Finance (No. 2) Act, 1939, Section 13 (2)—Finance Act, 1940, Section 81 (1).*

Three ladies ran a tea-shop business at a seaside resort. They did not open right through the year. They worked at Easter, but only opened on Sundays between Easter and Whitsuntide. Then, until the end of September, they had a seven-day week. In 1940 they worked 160 days, in 1941, 138 days, and in 1942, 146 days. The Commissioners in *Wilkie Neck and Smith v. C.I.R.* (K.B.D., April 9, 1946, T.R. 187), had found that the appellants did not satisfy the condition that they had

"during more than one-half of the chargeable accounting period worked full time in the actual management or conduct of the trade or business,"

and Wrottesley, J., had, against his obvious desire, no option but to endorse their decision. One feature of the case is, however, of importance. The appellants' accounts had been made up for consecutive periods of 12 months, and, as a consequence, under Section 20 of F.A., 1937, these constituted the chargeable accounting periods. Nevertheless, by sub-section 2 (c) of the same section, "in any other case," where the accounts have not been made up for twelve-monthly periods,

"the accounting periods of a trade or business shall be such periods not exceeding twelve months as the C.I.R. may determine,"

and Wrottesley, J., almost at the commencement of his judgment, said:

"It may be—I express no opinion about it, but this is indicated by Mr. Donovan [Counsel for the Crown] in his argument—that an application might have been made in this case by these appellants whereby, instead of making up their accounts for twelve-monthly periods, they should have made up their accounts for the period for which they traded, and applied to the Commissioners, this being 'any other case,' for the period to be determined. But that has not happened."

If the appellants had adopted this course and made up accounts for the six months in each year to the end of September, the allowance of a three working-proprietor standard for each summer half-year would seem to have been a fair solution. In the unlikely event of the C.I.R.—who, when all is said and done, have shown themselves extremely reasonable in such matters—proving obdurate and refusing to agree to this course, the case of *Jenkins Productions, Ltd. v. C.I.R.* (C.A., March 17, 1944), noted in our issues of February and May, 1944, shows that the taxpayer is far from helpless. It may be, of course, that in the present case the appellants considered they were entitled to three full yearly allowances and framed their accounting periods accordingly.



**FINANCE****The Month in the City****A Partial Recovery**

The investment markets have staged a moderate and steady recovery during the past month. Further attention has been paid to shares in the nationalisation groups as a result partly of the coal compensation award and partly of the Government's suspected change of front on steel nationalisation policy. August, nominally the quietest month of the year on the Stock Exchange, provided the altogether abnormal spectacle of a 5s. rise in so sedate a share as Imperial Chemical Industries to a new, but only temporarily held, "high" of 48s. 9d. The stock has since come back on profit-taking to about 46s. This abnormal rise was due to determined Indian buying of leading British industrial equities, including Dunlop, which rose to 76s. 9d. The fall in the *Financial Times* ordinary share index in the third week in July has now been made good, with a rise from 124.8 on July 24 to 127.7 on August 13—barely  $1\frac{1}{4}$  points below the June "high" of 129.3. During the opening days of August gilt-edged stocks rose steadily in anticipation of the disbursement of funds on the repayment of £163 million  $2\frac{1}{2}$  per cent. National War Bonds, 1946-48, on August 18. As the date approached, however, the market became practically idle, with Local Loans particularly dull on renewed fears that this stock might be called at a month's notice. Argentine railway issues have fluctuated around their lower levels, marking disappointment at the slow and chequered course of the negotiations in Buenos Aires. Despite the recovery in equities during the month, the market as a whole remains in a rather temporising mood, awaiting political developments in the autumn, and the unfolding of the critical coal situation as winter approaches.

**Bonus Ban to Remain**

After consulting with the National Investment Council, the Chancellor of the Exchequer has decided to maintain the embargo on the issue of bonus shares through the capitalising of profits or reserves. It will be recalled that this subject was discussed very thoroughly in the debates on the Borrowing (Control and Guarantees) Bill, and Opposition speakers stressed the economic illogicality of the ban. But some investors seem to have been as much bemused by the so-called attractions of shares with scrip bonus possibilities as the Chancellor and his supporters have with the argument that bonus shares are a "racket." The real point is that, on capital account, bonus shares make no real difference; they bring a company's legal capital into closer conformity with its earning assets. On revenue account, however, the issue of more shares enables a company to make a higher dividend distribution look more "respectable"; it becomes a smaller percentage of a larger capital, while its absolute size is increased. If the ban is seen as a check to increased earnings distributions, rather than a prohibition of so-called "market manipulation," it acquires some semblance of logic. But it does not prevent those companies with sufficient determination from ignoring the Chancellor's request to stabilise dividends—and the warning that has gone out with it that disregard of his wishes may be visited by some new form of profits taxation. The ban, however, will still prevent companies whose shares are being marketed for the first time from adjusting their capital to accord with their assets and earning power. By the revised instructions received from the Treasury, the Capital Issues Committee are given a greater discretion in dealing with the prices of new issues, particularly in respect of any bonus element in the price.

**Conversion Investment Trust Offer**

Much interest has been aroused by the offer of a leading (but unnamed) firm of brokers on behalf of clients (also unnamed) to purchase the £1 ordinary stock units of Conversion Investment Trust at 28s. 6d. There is £2,502,533 stock in issue, and the offer is conditional upon a minimum acceptance of 90 per cent. The offer thus involves a commitment of well over £3½ million in respect of stock which since its consolidation last December (the Trust was a merger of four investment trusts which originally sprang from unit trust enterprises) had previously stood no higher than 24s. The offer of 28s. 6d. is beyond the break-up value of the Trust, and represents a yield basis of £3 3s. 2d. on dividend and 4 per cent. on earnings. The directors have presented the offer with scrupulous fairness to the stockholders; it is attractive to existing holders save in one respect only, and that makes it attractive to the purchasers—namely, the difficulty of finding suitable alternative investments. A ready-made portfolio, consisting as to 78 per cent. of ordinary shares, is an attractive proposition in to-day's market conditions on a 4 per cent. earnings basis. The offer closes on September 3.

**London and District Society****Possible Refresher Courses**

The Committee have considered the desirability of organising some short refresher courses for members of the District Society who served with H.M. Forces. Such courses would be in the nature of extensions of the courses held by the Society of Incorporated Accountants at Oxford and Cambridge. They would be available both for members who attended those courses and to other ex-Service men who may have been unable to do so.

The plan would be to form groups of about 20 members each who would meet, say, at 5.0 or 5.30 p.m. on one or two evenings in the week for about six weeks in succession. A member of the Society would be good enough to take charge of each group at which matters of current professional importance would be discussed.

It is hoped that a number of ex-Service members in London will be interested in these proposals. Before they are more definitely formulated it is desired to ascertain what measure of support is likely to be forthcoming. Members interested are requested to communicate with the Secretary of the London and District Society, Incorporated Accountants' Hall, Victoria Embankment, W.C.2.

**City of London College**

The following special short refresher courses of six lectures will be held in the Michaelmas and Lent terms at the City of London College, Electra House, Moorgate, London, E.C.2. The fee for either series will be 10s.:

- (a) Taxation Practice (including E.P.T., N.D.C., Income Tax Act, 1945, and P.A.Y.E., and the Finance Acts, 1939 to 1945). Beginning on October 14, 1946, at 6.30 p.m.
- (b) Income Tax Decisions, 1939 to 1946. Beginning on February 10, 1947, at 6.30 p.m.

**Mineral Development Committee**

The Minister of Fuel and Power has appointed a Committee, to be known as the Mineral Development Committee, to enquire into the metalliferous and other mineral resources of the United Kingdom and their development in the national interest. Lord Westwood is Chairman of the Committee, and one of the members is Mr. R. E. Yeabsley, C.B.E., F.S.A.A., F.C.A. The Secretary is Mr. W. C. C. Rose, of the Ministry of Fuel and Power.

## Points from Published Accounts

### Powell Duffryn

In the preliminary statement of Powell Duffryn it was announced that consolidated accounts for the year to March 31 last were in course of preparation but that, as they could not be completed in time for the meeting, they would be issued later in the year. This position must condition comment on the parent's accounts now published, for the promised group statement will be helpful in elucidating the support in net tangible assets that rests behind the book value of £6,622,798 placed upon shareholdings in subsidiary companies. Such information is vital in the case of an undertaking which is bound to have a large part of its assets transferred to the National Coal Board in exchange for Government compensation stock. Because of the time factor the absence of a consolidated statement has to be excused. But there are certain directions in which the parent company's accounts themselves might have been improved. It is disappointing, for instance, that dividends from subsidiaries are bulked with dividends from other investments and net interest receipts, while on the other hand the trading profit is returned after making provisions of an unspecified amount for losses of subsidiaries. It would have been more appropriate to set losses of subsidiaries against profits of subsidiaries and to have shown the net result separately from trading profit. The method of telescoping items that might well be segregated has some reflection, also, in the balance sheet, where there is an entry of £656,693 for "provisions for taxation (including income tax on the profits of the year to date), contributions to the company's pensions schemes and war damage contributions." There seems no reason, either, why the holding of tax reserve certificates should not be segregated from investments in marketable securities—the combined asset is £2,947,725—and perhaps we may express the hope that greater particularity may be shown in the consolidated accounts.

### Lovell & Christmas

The disadvantages of deducting dividend requirements at their gross amount, a practice which is generally being discarded in favour of the method of showing them net, are well illustrated by the Lovell & Christmas accounts. In 1944-45 a sum of £20,000 was specifically credited to profit and loss from taxation reserve; but, in addition, the directors stated that current taxation liabilities were being met by a further call on that reserve. That being so it was reasonable to conclude that the £90,000 gross shown to have been absorbed by dividends really entailed an expenditure of only £45,000 from the year's profits, and that the balance of the same amount, representing income tax at 10s., was a notional figure appearing also in the trading profit of £158,447. This profit could more truly be regarded, therefore, as not £158,447 but £113,447. In respect of 1945-46 the disclosed trading profit is £125,349; but in order to meet income tax of £66,698 and pay gross dividends of £90,000, there is a call of £25,166 on the carry-forward. The withdrawal from that balance is, of course, a net sum, equal, with income tax at 9s., to £45,754 gross, and it follows that dividend requirements again include a notional element, this time amounting to £20,589. The revised trading profit figure can therefore be put at £104,760. A second feature of the accounts is that the total apparent tax charge is disproportionately heavy, which is surprising, since a year ago part of the tax reserve was found to be in excess of the company's needs. It would have been possible to arrive at a much

closer assessment of the profit experience had dividend requirements been shown at their net amount, and had the income tax provision, which would then have related to the whole of profits, been described in the detail required by the best modern practice.

### Sangers

The first consolidated balance sheet submitted by Sangers emphasises afresh how valuable these group statements can be. Goodwill and trade marks appear in the parent company's accounts at only £50,000; but the consolidated statement shows that similar assets stand at £131,028 in the books of the subsidiaries and that another intangible item of £541,685 is represented by "premium on shares less subsidiary companies' capital reserves." In its wide sense, goodwill thus has a group total of £722,713. This compares with total reserves of £1,073,626, but that figure includes a reserve of £98,969 against fixed assets (shown at £756,872) and a reserve of £73,827 against future taxation. The parent company's net profit provides preference dividend and a total distribution of 30 per cent. on the ordinary capital with £29,862 to spare. This is not represented as a full measure of group earnings, but in fact it is such a measure, in view of the statement in accordance with Section 126 that "all the subsidiary companies earned profits during the period, and all have declared dividends which have been included in the above accounts to the extent of their profits." This rather cumbersome phraseology might with advantage be accompanied by a plain intimation that the parent company's profits include the whole of the profits made by the subsidiaries.

### Associated Weavers

In the consolidated balance-sheet of Associated Weavers the "surplus" at March 31 last is shown at £56,802. This is described as "subject to proposed distribution of dividend, £13,241," but in fact the directors' report makes it clear that it is also subject to a proposed transfer of £15,000 to general reserve. The description of the "surplus" might well have been amplified. An even better course would have been to show the general reserve at its enlarged amount and to have included the final dividend requirements under the "current liabilities" heading, leaving the credit remaining to be carried forward at profit and loss in its final form. This is not meant to imply that the final dividend requirements should be absorbed into the omnibus item at present provided for current liabilities. Rather, that item should be split into its component parts, viz., creditors, deferred repairs and taxation, with each of these parts given its separate identity. A smaller criticism, since the fault may arise merely through an error in punctuation, is that the issued capital of the parent concern should not be included under the heading "capital reserves and surplus" (no comma being shown after "capital"). At first glance, group reserves may be taken as £377,952, whereas, segregating the £207,000 capital from this sum, they are really £170,952—again subject to the final dividend.

### Richard Thomas & Baldwins

A very full and clear statement of affairs comes from Richard Thomas & Baldwins. The consolidated profit and loss account is prepared in tabular form, and care is taken to see that exceptional transactions are duly explained. Thus, there are separate items for extraordinary and capital expenditure written-off, £15,014;



premium paid on redemption of a subsidiary's debenture stock, £14,854; and transfer from the reserve account of a subsidiary in voluntary liquidation, £55,000. The provision for income tax and E.P.T. to cover liabilities on current year's profit is shown at £1,817,079. A feature of the consolidated balance-sheet is that the main

fixed assets, brought in at £13,805,835, are described in some detail—"Land, mines, buildings, machinery and rolling stock, less provision for depreciation, £9,967,967, loose plant and tools, at cost, less amounts written off." This narrative is not a specially clear one, however, and the statement deserves amplification.

## LAW

## Legal Notes

### EXECUTORSHIP LAW AND TRUSTS

#### *Inheritance (Family Provision) Act, 1938.*

In *Re Werby, Decsd.* (1946, W.N. 141), Romer, J., decided an interesting case under the Inheritance (Family Provision) Act. The testator made a will in April, 1944, whereby he appointed his mother, V. W., sole executrix and residuary legatee. He died in August, 1944. His wife had divorced him and he was survived by one child, N. The terms of the will were obscure, and Cohen, J., held that it contained a gift of capital sufficient to produce £90 a year payable to a legatee, the defendant D.M., and that the executrix held the residue on trust for the defendant F.B., but subject to an over-riding trust or power in the testatrix to retain for her own benefit so much of the residuary estate as she thought fit. The testator expressed a wish that his mother would provide for his son, but made no direct provision for him. The infant son N. M., by his mother as next friend, applied for maintenance under the Inheritance (Family Provision) Act, 1938. The only material question was how the maintenance was to be borne as between the persons entitled. Romer, J., directed that £145 per annum, being 3½ per cent. per annum on half the value of the estate, should be paid to the applicant's mother, by equal monthly instalments. The mother was to undertake to apply the same for the applicant's maintenance, credit being allowed to the defendant V.W. for moneys already paid for the infant's maintenance in excess of such monthly sums. The order also declared that there ought to be retained until the plaintiff attained 21 years such portion of the legacy given by the will of the defendant D.M. as when invested would produce by way of income the yearly sum of £25, and that such income, and in case of deficiency the capital of the retained portion, ought to be applied in payment of £25 towards the £145 in each year after the first year from the testator's death.

#### *Gift mortis causa—Delivery of Post Office Savings Bank book.*

In order to constitute a valid deathbed gift, there must be actual or constructive delivery as well as a present intention to give. In a case in 1902 it was held that the delivery of a Post Office Savings Bank book, coupled with words of gift, constituted a valid gift *mortis causa* of money standing to the credit of the deceased in that bank. In *Re Ward* (1946, 2 All E.R. 206) the day before his death the deceased (who died intestate) handed over to W. his Post Office Savings Bank book and said: "There is plenty of money there and I leave everything I have to you. Pay all expenses out of the money in the Post Office account. The rest is yours." Roxburgh, J., said the question to be determined was whether the words of gift were words of present intention and not of future gift. The point was a fine one, but he held that they were words of immediate gift, notwithstanding that something was to be charged upon the money in the Bank which might not have been capable of precise ascertainment at the moment of the

gift. Accordingly there was a valid *donatio mortis causa* of the money standing to the credit of the deceased in the Post Office Savings Bank.

### MISCELLANEOUS

#### *Banking—Infant's overdraft—Guarantor not liable.*

On the principle that certain debts incurred by infants are void by statute, Oliver, J., decided in favour of the defendant guarantors of an infant's bank overdraft in *Coults and Company v. Browne-Lecky and Others* (1946, W.N. 144). The second and third defendants jointly guaranteed the first defendant's overdraft with the plaintiff bank. The first defendant was, to the knowledge of the bank, at all material times an infant. His contract to repay the money lent was void by virtue of Section 1 of the Infants Relief Act, 1874. On being sued on their guarantee, the second and third defendants, who were both of age and of full capacity, contended that they could not be made liable as guarantors of a debt void by statute. Oliver, J., accepted that contention and gave judgment for the defendant guarantors against the bank. In view of this decision, a bank which gives an overdraft to an infant customer does so at its peril, because it has no legal redress even against adult guarantors.

#### *Registration of Business Names Act, 1916, Section 1—Change of name by marriage.*

In *Seymour v. Chernikeef* (62 T.L.R., 450) the Divisional Court decided an unusual point under Section 1 of the Registration of Business Names Act, 1916. The Section requires registration by every individual carrying on business in the United Kingdom under a business name which does not consist solely of his own surname. It also provides (c) that every individual or firm having a place of business in the United Kingdom who has changed his name, except in the case of a woman in consequence of marriage, shall be registered in the manner directed by that Act. The respondent, Miss J.F., carried on business under her normal maiden name. In 1940 she married a Mr. Chernikeef, but continued to carry on business under her maiden name. She did not register her change of name. When prosecuted she pleaded the protection of paragraph (c) of Section 1, above quoted. The magistrate agreed that no offence had been committed. But the Divisional Court took a different view. They held that paragraph (c), which at first sight appears to qualify paragraph (b), really deals with a different matter altogether; it applies where a person carrying on a business changes his name, when he is bound to register that change. The only person not required to register under that paragraph is a married woman. But the respondent was bound to register her change of name under paragraph (b) because she was carrying on a business under a business name which did not consist of her true surname. The case should be sent back to the magistrate with a direction to find the charge proved.

## Publications

### **Holding Companies and their Subsidiaries. Consolidated Accounts Principles and Procedure.**

By T. B. Robson. (Gee & Co. (Publishers), Ltd. London. pp. 109. Price 17s. 6d. net.)

The purpose behind the presentation of consolidated financial accounting documents is the reasonable disclosure of the net assets and earnings of a holding company group, aggregated apart from the accounts of the legally separated entities which for one reason or another have assumed responsibility for the branches or departments of the main institution. The device of inter-entity share holdings in no way removes the accounting responsibility to ultimate proprietorship, and it is for this reason that consolidated accounts are now coming to be regarded as essential instruments in the display of adequate information to holding company shareholders, especially those with equity rights. The Institute of Chartered Accountants, the Society of Incorporated Accountants, the London Stock Exchange, and the Committee on Company Law Amendment have all insisted on the obligation to honour this responsibility.

In another respect consolidated accounts may be looked upon as an attempt to portray, in money terms, the working and stability of the domestic economy constituted by a holding company with its subsidiary and sub-subsidiary companies. Nevertheless such accounts are inadequate and unsuitable as a guide to creditors and share interests held outside the group, and it needs to be made quite clear that they are not intended to be used for this purpose, since they look beyond liability equities to ultimate proprietorship. The creditors and outside minority shareholders must still look to the separate legal accounts of the individual entities for a disclosure of the assets answering their claims.

Until relatively recent times the preparation of consolidated accounts was very apt to become a matter of accounting mechanics and often it was little more than a mere arithmetical aggregation. Nowadays there is a greater consciousness of the limitations resting in accounts of this order, a situation which has brought about a growing recognition of the need for some modification of indiscriminate arithmetical aggregations if unreality and serious distortions are to be avoided. It is an outstanding merit of Mr. Robson's book that it plainly declares this situation.

The second chapter in the book outlines the purpose, limitations and functions of consolidated accounts, the third deals with the scope of the consolidation, and the fourth with the thorny subject of foreign subsidiary undertakings. Chapter five on the mechanics of consolidation makes out the lesser case for standardised accounts, a case which is not incapable of projection either to industrial classifications or ultimately—if that is not too far a step—to the developing field of "social accounting." In slightly guarded terms Mr. Robson says that "the preparation of consolidated accounts is greatly assisted by the adherence of all companies in the group to a uniform classification of accounting items and a standard accounting practice. The issue to all concerned of accounting instructions designed to secure conformity with this practice not only as between companies but also as between one financial period and another is of the greatest value." (p. 25).

In Chapter 11 Mr. Robson gives us a clear account of the consolidation of profit and loss accounts and here he himself makes the point that "mere arithmetical aggregation of the figures shown in the profit and loss accounts of the constituent companies, correctly pre-

pared though they may be, is not of itself sufficient to achieve the desired result." (p. 59).

There can be no doubt that the consolidation of profit and loss accounts is just as important as the consolidation of balance sheets, and in these days perhaps more so. Nevertheless there are still some accountants who experience difficulty with consolidated revenue accounts. Mr. Robson's book is one which they cannot afford to neglect.—F.S.B.

### **An Approach to Management.** By G. E. Milward. (Macdonald & Evans, London. pp. 82. Price 8s. 6d. net.)

It must not be inferred from the title of this book that it is in any sense a simple primer. The author has achieved his object, namely, "to compress experience into an essence of governing or guiding principles." A more appropriate title might be "The Foundations of Management." It is a book for the serious student; it demands and deserves serious study. Mr. Milward's vast experience has been condensed into a small volume of only eighty pages which, it will be readily understood, require very careful reading.

The book is divided into two parts dealing separately with "The Human Factor" and "The Management of Work." In practice these two problems are so intermingled as to make it extremely difficult to consider them separately. Mr. Milward has rendered great service in disentangling them, as it were in the laboratory, for the benefit of his readers, who should thus be able to clarify their thoughts and so establish a proper equilibrium between them. It will often be found that a good and efficient manager of work is not equally good in the management of people, and conversely a manager with a deep understanding of the personal equation may fail in the harder world of material things.

Particularly noteworthy in the section dealing with the "Human Factor" are the final pages on the subject of interviewing. All kinds of interviews are dealt with in three or four pages, but in spite of this it is a very complete exposition of the subject.

In the second section, Mr. Milward deals, among other things, with the "Division of Work" and the principles on which it is divided. This is a subject on which the best of managers are at times vague and uncertain, and we are here given clear and definite reasons for dividing work in particular ways. Similarly, definite reasons are given for the selection of particular types of organisation.

Something new in a work of this kind is a comprehensive statement of the considerations relating to the choice of outside consultants to conduct management investigations. Mr. Milward has given a lead which management consultants should follow, in their own interests and for the good of industry in general.

The book is particularly addressed to those who are experienced in management and younger men who will become managers. Both will reap a rich reward from a careful study of this volume.—J.J.E.

### **Income Tax Act—Part One**

We have had an opportunity of seeing a proof of a set of forms compiled by Messrs. E. G. Turner and J. V. Eastwood, Chartered Accountants, designed to provide records and computations for the purposes of the allowances of Part I of the Income Tax Act, 1945. The forms are to be published by John Newton (Pub-



licity), Ltd., 124, Corn Exchange Buildings, Cathedral Street, Manchester, 4, at 5s. 6d. per copy.

The object of the authors is to provide a guide in extracting the information relative to industrial buildings and structures which will be necessary in applying the provisions of the Act. The schedules have been skillfully arranged with full references to the numbers of the Sections concerned so that no point shall be overlooked.

While, perhaps, the subject matter makes simplicity unattainable, the wording of the explanations could be clearer. For example, the opening paragraph reads "These records have been compiled for the use of persons entitled to the 'relevant interest' (see Section 10) in the whole or part of an industrial building or

structure (see Sections 8, 9 and 68 (2)). The word 'building' is used in these records to denote an industrial building or structure or a part thereof." Why not: "These records have been compiled for the use of persons who have incurred capital expenditure on industrial buildings and structures (see Sections 8, 9, 10 and 68 (2))"?

Nevertheless, this shows no more than that complete familiarity with such writing as the Income Tax Act, 1945, brings punishments as well as rewards. A detailed test of the charts establishes confidence in recommending them to the use of practitioners, who will find readily available a reminder of all relevant provisions of the Act and a confirmation of their own interpretation.—J.A.J.

## Society of Incorporated Accountants

### COUNCIL MEETING

THURSDAY JULY 25, 1946

**Present:** Mr. F. Woolley (President) in the Chair, Mr. C. Percy Barrowcliff, Mr. R. Wilson Bartlett, Mr. R. M. Branson, Mr. J. Paterson Brodie, Mr. E. Cassleton Elliott, Mr. Alexander Hannah, Mr. Walter Holman, Sir Thomas Keens, D.L., Mr. A. E. Middleton, Mr. Bertram Nelson, Mr. James Paterson, Mr. F. A. Prior, Mr. Percy Toothill, Mr. Joseph Turner, Mr. Richard A. Witty, Mr. R. E. Yeabsley, C.B.E., Mr. A. A. Garrett (Secretary) and Mr. L. T. Little (Deputy Secretary).

Apologies for non-attendance were received from Sir Frederick Alban, C.B.E. (Vice-President), Mr. John Ainsworth, M.B.E., Mr. A. Stuart Allen, Mr. Robert Bell, Mr. M. J. Faulks, Mr. C. A. G. Hewson, Mr. D. R. Matheson, Mr. R. E. Starkie, Mr. Joseph Stephenson, Mr. A. H. Walkey.

#### APPOINTMENTS

The President referred with pleasure to the following appointments of members of the Council:—

Mr. John Ainsworth as President of the Institute of Municipal Treasurers and Accountants.

Mr. A. E. Middleton as a member of the Railway Assessment Authority (in succession to Mr. F. C. R. Douglas, M.P.).

Mr. R. E. Yeabsley, C.B.E., as Accountant Adviser to the Board of Trade.

#### MR. C. HEWETSON NELSON

The Council received the resignation from the Council of Mr. C. Hewetson Nelson, senior Past President. The following resolution was adopted:—

"The Council accept with great regret the resignation of Mr. C. Hewetson Nelson, Liverpool, senior Past President, from the Council, of which he has been a member for forty-six years. They express to him the thanks of the Society for his long and valuable services in many offices which he has held and particularly as Chairman of the Finance and General Purposes Committee from 1925 to 1943, as a former Chairman of the Board of Examiners and as President from 1913 to 1916 and Vice-President at the Fiftieth Anniversary in 1935.

"The Council further resolved that Mr. Hewetson Nelson be elected an Honorary Member of the Society in recognition of his services to the Society."

#### SUBSCRIPTIONS OF MEMBERS

A report was submitted by the Finance and General Purposes Committee of the current and probable expenditure in 1947 and subsequent years. The Committee advised the Council that it was necessary that the Society's revenue should be increased by about £10,000 per annum and that this sum should be raised by an increase in the subscriptions. The Council agreed to recommend that all subscriptions of members (except subscriptions of members overseas) be increased by 50 per cent. as from January 1, 1947, and that the subscriptions of members overseas be increased, in the case of Fellows, from £1 1s. to £2 2s. per annum and, in the case of Associates, from 10s. 6d. per annum to £1 1s. per

annum. The Council decided to submit the proposals, which would involve an alteration of the Articles, to an extraordinary meeting of members, to be held in the autumn of 1946.

#### FINAL EXAMINATION—H.M. FORCES CANDIDATES

The Council considered, and adopted in principle, a recommendation from the Examination and Membership Committee that candidates who served during the war with H.M. Forces, who have passed the Intermediate Examination and fail in the Final Examination by a small margin, may be re-examined in one, or two, or three single subjects, at the discretion of the Examination and Membership Committee. The details will be announced separately.

#### ARTHUR E. PIGGOTT (MANCHESTER) PRIZE

The Council considered and approved proposals for the award in connection with the Final Examination of a prize to be known as the Arthur E. Piggott (Manchester) Prize. The Prize would be derived from the income of a fund subscribed by the Manchester members as a memorial to the late Mr. Arthur E. Piggott, who was honorary secretary of the Manchester District Society for fifty years. The Council expressed their appreciation for the gift.

#### HENRY MORGAN PRIZE

The Council recorded their thanks for a gift of £500 from Mr. Ewart Morgan, F.S.A.A., the income therefrom to be devoted to a prize to be awarded annually, on conditions approved by the Council, in connection with the Final Examination. The gift was made to the Society in memory of the late Mr. Henry Morgan, who was president of the Society from 1929 to 1932.

#### CO-ORDINATION OF THE ACCOUNTANCY PROFESSION

The President reported that at the extraordinary general meetings of the respective Qualifying Bodies the resolutions for the approval of the draft Public Accountants Bill were, in each case, adopted by a large majority.

#### SOUTH AFRICA

The Council received the minutes of the respective annual general meetings of the South African (Western) Branch, Capetown, the South African (Northern) Branch, Johannesburg, and the South African (Eastern) Branch, Durban.

#### RESIGNATIONS

The Council received with regret a report from the Examination and Membership Committee that the following resignations had been accepted with effect from the dates shown:—

#### December 31, 1945:

Bewlay, Hubert John (Associate), Broughton-in-Furness.  
Hails, George (Fellow), London.  
Holliday, Charles Sandland (Fellow), Nantwich.  
King, William Barclay Miller (Associate), Greenock.  
Norfolk, Walter James (Fellow), Clacton-on-Sea.  
Snow, William Keller (Fellow), Evesham.

#### December 31, 1946:

Pye, Richard Greenwood (Fellow), Blackburn.  
Wilby, Richard Sutcliffe (Associate), Leeds.

## DEATHS

The Council received with regret the report of the death of each of the following members:—

Anthony, Leslie Mills (Associate), Swansea.  
 Chapman, Arthur Leonard (Associate), Birmingham.  
 Dowell, Thomas John (Fellow), London.  
 Duncan, James Alexander (Fellow), Auckland, N.Z.  
 Dunn, Walter Gidley (Fellow), London.  
 Foster, Walter Henry (Associate), Hull.  
 Gentry, Arthur Frederick (Fellow), Sheringham.  
 Goulding, John (Fellow), Chipping Campden, Glos.  
 Grant, Donald Lewis (Associate), Birmingham.  
 Hosking, Albert (Associate), London.  
 Johnson, Cecil (Associate), London.  
 King, George Frederick (Fellow), Wigan.  
 Myers, Oliver (Associate), London.  
 Shaw, Frank Stephenson (Associate), Manchester.  
 Sibson, Henry Reginald (Fellow), Brighton.  
 Slater, Walter James (Associate), Southampton.  
 Verity, Charles (Associate), Rawdon.  
 Wright, Alexander (Fellow), London.  
 Wyer, Edward Russell (Fellow), London.

## EXAMINATIONS

Candidates for the November examinations are again reminded that Tuesday, September 17, is the last date for the receipt at Incorporated Accountants' Hall of their completed applications, which must be on the official forms and accompanied by all appropriate certificates and the fee.

The Preliminary, Intermediate and Final Examinations will be held at London, Manchester, Leeds, Cardiff, Glasgow, Dublin and Belfast, on November 19, 20, and 21, 1946.

Candidates are requested to make their own arrangements for accommodation.

## FINAL EXAMINATION

The following concession has been approved by the Council of the Society.

Where a candidate for the Final Examination has:

- (a) Served with H.M. Forces, prior to August 15, 1945 (or has full-time approved National service) for not less than one year (or less, at the discretion of the Examination and Membership Committee where there are special circumstances);
- (b) submitted evidence of such service;
- (c) not been exempted from the Intermediate Examination;
- (d) been unsuccessful at a Final Examination for which he has sat within two years prior to his joining, or while he was serving with, H.M.F.;

or

been unsuccessful at a Final Examination held within 2½ years of the date of the expiration of his demobilisation leave;

(e) failed by a small margin;

at the discretion of the Examination and Membership Committee, he may be permitted to sit again for one, two or three subjects in which he has failed. He will be required to obtain on re-examination a higher mark than would normally be accepted, and where two or three subjects are concerned, they must be taken at one and the same examination.

The concession will be allowed at two examinations only (following failure in the whole Final Examination) and the dates of these examinations must fall within four years of the date of expiration of the candidate's demobilisation leave. Candidates to whom the concession applies will be notified by the Secretary of the Society subsequent to the declaration of results.

## DISTRICT SOCIETIES

## LEICESTER

## Refresher Course

The Incorporated Accountants' District Society of Leicester announces that arrangements have been made jointly with the Chartered Accountants of Leicester for a Refresher Course for ex-service members, to be held at Leicester University College from September 9 to 12. Lectures will be given as follows:—

- "Accountancy Research," by Mr. H. Rivington, A.S.A.A., and Mr. L. Staples, A.S.A.A.
- "Company Law Amendment," by Mr. T. Fleming Birch, F.S.A.A., F.C.A.

- "E.P.T. and N.D.C." by Mr. W. F. Copeland, A.C.A.
- "Government Controls," by Mr. R. J. McLeish (Customs and Excise).
- "P.A.Y.E." by Mr. Thom (Inland Revenue Department).
- "Government Price Control," by Mr. R. H. Fox, A.S.A.A.
- "Estate Duty and Share Valuation," by Mr. L. Freeman, F.C.A.
- "Income Tax Act, 1945," by Mr. G. R. Wormald, H.M. Inspector of Taxes.

## NORTH LANCASHIRE

Mr. John Wareing, F.S.A.A., Preston, has relinquished the office of Hon. Secretary of the North Lancashire District Society after having held the position for 27 years. The Committee have expressed their appreciation to Mr. Wareing of his long and valuable services.

Mr. Kenneth Ravenscroft Stanley, F.S.A.A., of Messrs. Thornton & Stanley, The Close, Queen's Square, Lancaster, has been appointed Hon. Secretary with effect from August 31, 1946.

Mr. John Wareing, whose address is 11, Chapel Street, Preston, will continue to be the Hon. Librarian.

## PERSONAL NOTES

Mr. A. F. Gill, Incorporated Accountant, has been admitted into partnership by Messrs. Humphreys, Gill and Galleway, Vale Bank, Langham Road, Bowdon, Cheshire.

Messrs. A. Macdonald and Co., Incorporated Accountants, have admitted Mr. E. L. Kenworthy, Chartered Accountant, into partnership. The firm will practise as Macdonald, Moody and Kenworthy, at County Buildings, Land of Green Ginger, Hull.

Messrs. Smallfield, Lindsay Fynn, Fitzhugh, Tillett and Co., 29, Palace Gate, London, W.8, have admitted into partnership Mr. John D. George, O.B.E., T.D., F.C.A., and J. E. O. Arnold, A.C.A.

Mr. Histasp S. Hirji-Khursed, Incorporated Accountant, has commenced public practice at Aga Khan Building, Dalal Street, Fort, Bombay.

Mr. B. J. C. Buckle, Incorporated Accountant, has returned from H.M. Forces, and has resumed practice at 10, Portsmouth Road, Woolston, Southampton.

Mr. L. C. Savage has taken Mr. F. A. Simpson into partnership. They will practise at Grosvenor Gardens House, London, S.W., and 25-26, Weston Chambers, Weston Road, Southend-on-Sea, under the style of Savage, Simpson and Co., Incorporated Accountants.

## REMOVALS

Mr. W. H. Stephens, Incorporated Accountant, who commenced public practice in November, 1945, is now practising at 139, High Street, Rainham, Gillingham, Kent.

Mr. Norman Waud, Incorporated Accountant, has removed his offices to Foxton's Chambers, Piccadilly, York.

Messrs. Ernest F. Thompson and Co., Incorporated Accountants, have removed their offices to Midland Bank Chambers, 60-62, High Street, Harlesden, London, N.W.10.

## Courses for the Society's Examinations

The Leeds College of Commerce, 43, Woodhouse Lane, Leeds, 2, is arranging a full-time day course in preparation for the Intermediate and Final Examinations of the Society of Incorporated Accountants. The course is intended for demobilised service men and women. It will begin on September 11, and the sessional fee—September to June—will be twenty-four guineas. The senior lecturer in accountancy will be Mr. Arthur Pyser, A.C.A.

The Chiswick Polytechnic, Bath Road, Bedford Park, London, W.4, plans to provide complete evening courses in preparation for the Intermediate and Final Examinations of the Society.

Evening courses are also available at the North-Western Polytechnic, Prince of Wales Road, Kentish Town, London, N.W.5, at Kennington Commercial Institute, Kennington Road, London, S.E.11, and at Kingston-upon-Hull College of Commerce, Brunswick Avenue, Hull.